

FINANCIAL TIMES

Cash crisis

Serbian monetary policy causes dinar drought

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Turmoil in Turkey

Erbakan takes the blame

Edward Mortimer, Page 10

Renewable energy

Europe sets out its action plan

Technology, Page 12

Portugal

Privatisation shifts savings into shares

Page 18

World Business Newspaper <http://www.FT.com>

WEDNESDAY JUNE 4 1997

Venture capitalists' key role

A record \$5.9bn was invested in young companies in the information technology sector last year. Today's Review of Information Technology looks at the central role of the US venture capital community in Silicon Valley.

© Separate section

Telecom partners act to strengthen European alliance

Unisource, an alliance of European telecom operators, moved to tie its members more tightly together after the defection of a key partner last month. The remaining partners, KPN of The Netherlands, Telia of Sweden and the Swiss national operator plan to merge their carrier services, which sell transmission capacity to other operators, to form a \$2bn turnover wholesaler with pan-European reach. Page 13

UK to press Bonn over Eurofighter: UK defence secretary George Robertson will urge his German counterpart, Volker Rühe, to maintain funding for the Eurofighter project, which Mr Robertson sees as an important part of Europe's industrial base. Page 3

Peres' successor poised: Ehud Barak was poised to lead Israel's Labour party in succession to Shimon Peres, 73, who was defeated in the general election a year ago. Page 4

Liberals win in Canada: Jean Chrétien's ruling Liberal party won Canada's general election, but with a reduced majority. Page 12; Poll opens cracks in face of Canada, Page 6; Editorial Comment, Page 11

IRA terrorist suspect given bail

IRA terrorist suspect Roisin McAliskey was granted bail by a judge in London to allow her to move to a specialist mother and baby unit. She gave birth to a daughter a week ago. Ms McAliskey is awaiting extradition proceedings to Germany where she is wanted for questioning over a mortar bomb attack on a British army base last summer. Ban looms for splinter groups in Northern Ireland, Page 8

European hotels face shake-up: The European hotel industry will be shaken up by mergers, acquisitions and joint ventures as international chains vie to increase their presence, a report says. Page 5

SKF aims faster bearing at Japan: SKF of Sweden, the world's biggest maker of industrial rolling bearings, aims to raise its share of the Japanese market with a new bearing claimed to allow machinery to run 15 per cent faster. Page 5

Music industry in piracy crackdown: The music industry is to create a global anti-piracy network, based in London, to detect and act against manufacturers and distributors of unauthorised recordings. Page 5

Coke seeks to oust Cadbury: Coca-Cola, the world's biggest soft drinks company, is trying to force Cadbury Schweppes, number three in the US soft drinks market, out of thousands of McDonald's fast-food outlets. Page 12

S Korean finance ministry faces curbs: South Korea's powerful finance ministry could see its influence curbed under plans announced by the government-backed financial reform committee. It proposes granting independence to the country's central bank. Page 12

Japan approves tough spending cuts: Japan adopted proposals for severe spending cuts in an attempt to reverse the country's deficit-ridden finances. Page 7

World Bank to copy Burger King: World Bank president James Wolfensohn is encouraging managers to think more like Burger King employees. He said the bank, like the restaurant chain, was continually seeking to improve its service to clients. Page 12

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Bundesbank wins the argument over qualification for Euro

Waigel backs down on gold

By Peter Norman and Ralph Atkins in Bonn

The German government yesterday abandoned its attempt to use profits from revaluing the country's gold reserves to meet the criteria for Euro this year, in the face of massive opposition from the Bundesbank and the public.

At a hurriedly-arranged meeting in Bonn Mr Theo Waigel, the finance minister, and Mr Hans Tietmeyer, the Bundesbank president, reached broad agreement to settle their damaging dispute.

Mr Tietmeyer agreed that the gold could be revalued this year. But the government, in a crucial concession to the Bundesbank, accepted that the transfer of the proceeds to Bonn from the resulting capital gain would only take place in 1998, in line with the Bundesbank's normal accounting practices.

This means Mr Waigel will no longer be able to count the proceeds of a gold revaluation towards meeting, in 1997, the criteria for economic and monetary union laid down in the 1992 Maastricht treaty. The government will have to resort to other measures to reduce its deficits if it is to meet the criteria.

Although the agreement still needs the approval of the Bundesbank's decision-making central council, Mr Waigel's climbdown should take the sting out of the dispute that has highlighted Germany's financial problems and cast doubt on the future of the euro, the planned single European currency. After the min-

ister met MPs, Mr Wolfgang Schäuble, parliamentary leader of the coalition's Christian Democratic and Christian Social parties, said there would have to be greater efforts to bring Germany's public deficit below the 3 per cent of gross domestic product needed to qualify for Euro.

Mr Schäuble also signalled an increased privatisation drive this year. Although privatisation proceeds do not count towards meeting the rules for Euro, they will help the government keep the federal deficit below the level of spending on investment and in line with constitutional requirements.

Yesterday's agreement did nothing to resolve a parallel row within the Bonn coalition over financing the federal budget for 1998, however.

Early in the morning the Chancellor, Helmut Kohl, chaired a second crisis meeting of coalition leaders in 36 hours in an attempt to bridge a serious rift over whether or not to raise taxes.

But Mr Kohl's CDU and Mr Waigel's CSU made no obvious progress in resolving differences with the small Free Democrat Party, the junior coalition partner.

Mr Wolfgang Gerhardt, FDP leader, said Germany would be able to solve its budget problems and meet the Maastricht treaty criteria "without resorting to tax increases".

However Mr Michael Glos, leader of the CSU MPs in the Bundestag, the lower house of the Bonn parliament, countered with his "personal view" that he did "not think Ger-



Hans Tietmeyer, left, and Theo Waigel leave the Bonn Finance ministry yesterday.

many could meet the Maastricht criteria credibly without a tax rise". Mr Waigel has consistently refused to rule out higher taxes against a background of rumours that he is seeking either to raise oil and higher taxes would damage his party, as well as the German economy. Mr Waigel will today

give a statement to parliament on his gold revaluation plans and defend himself against an opposition motion demanding his dismissal.

Peace with the Bundesbank, Page 2; Editorial comment, Page 11; Lex, Page 12; Government, Page 22

Mexico plans to break cycle of crises

By Leslie Crawford in Mexico City

Zedillo seeks faster growth, investment

Mexico's government yesterday announced a three-year economic plan designed to speed growth, boost investment and prevent a recurrence of the financial crises which have affected the country at the end of each six-year government term.

"This is the first time the finance ministry publishes detailed, medium-term macro-economic and fiscal projections, and we are doing so to break the six-year cycle of economic crises," said Mr Guillermo Ortiz, finance minister.

The National Plan for Financial Development outlines President Ernesto Zedillo's economic goals until the end of his administration in December 2000.

To create jobs for the 1m

Mexicans who join the labour force each year, the government aims to speed up economic growth from an estimated 4.5 per cent this year to 5.8 per cent in 2000.

Investment is forecast to rise from 20.9 per cent of gross domestic product in 1996 to 25.4 per cent at the turn of the century.

The government expects almost all the new investment to be financed with internally generated domestic savings, in marked contrast to previous booms which were funded with foreign borrowings.

"We will use foreign funding only as a complement to the effort that will go into raising Mexico's domestic savings rate," Mr Ortiz said. The cur-

rent account deficit, which grew to an unsustainable 5 per cent of GDP during the 1994 financial crisis, is projected to reach a maximum of 3.2 per cent of GDP in 2000, he said.

Foreign direct investment, rather than the volatile short-term capital flows of the past, is expected to cover most of the balance of payments gap.

Unlike previous national development plans, President Zedillo's blueprint contains almost no discussion of foreign exchange policy or the role of the debilitated banking sector in Mexico's economic recovery.

"The document commits the government to maintaining a freely-floating exchange rate, even though the finance ministry and autonomous central

bank are at loggerheads over the recent appreciation of the peso. Central bank officials favour a strong peso to contain inflation, but the ministry, which has the final word on exchange rate policy, is understood to favour a more competitive peso.

"The government will need to maintain an undervalued

peso if it wants to increase domestic savings," says Mr Rogelio Ramirez, of Ecomex economic consultants in Mexico City.

"A strong peso has always given us an artificial sense of well-being. We consume more and imports rise."

Over the past year, in which the peso has appreciated about 15 per cent against the dollar, imports of consumer goods have grown 52.7 per cent.

Continued on Page 12

Retired IT veterans asked to cure 'millennium bug'

By Nicholas Denton

A state government in the US is bringing information technology veterans out of retirement to correct ancient software programs riddled with the "millennium bug".

A bill going through the Oregon legislature will allow pensioners to work full-time and keep their retirement benefits - provided they are employed in solving the Year 2000 problem.

This old guard of IT veterans is expected to make up a third of a 200-strong "Y2K Corps" which Oregon is setting up to amend software that will otherwise fail when faced with dates after 1999.

The pensioners will contribute knowledge of languages such as Cobol and Assembler, which were used to develop applications for mainframe computers in the 1960s and 1970s but fell out of favour

after the advent of personal computers.

"People thought Cobol was a dead language and moved on to newer ones," said Ms Julie Pearson, statewide technical education manager, who is recruiting school leavers as well as retirees into the Y2K corps.

The employment of IT veterans, some of whom helped develop the programs now becoming unstable, is intended to reduce the estimated \$66.9m cost of fixing computer systems in Oregon state offices by a third. The state estimates it can pay them half the rate outside consultants would demand.

The UK Department of Trade and Industry and business organisations will also explore the use of a "Dad's Army" to tackle the millennium bug at a skills summit organised by Taskforce 2000, an agency backed by the Con-

federation of British Industry.

The origin of the millennium bug lies in the cost of computer memory at the time many programmes on mainframe computers were written. Developers saved space by storing the year as two digits rather than four.

Many ageing programmes, which assume correctly that 97 means 1997, will become confused after the turn of the millennium and wrongly identify 01 as equivalent to 1901, rather than 2001.

The problem, although straightforward, is costly to correct. In the UK, 300,000 additional IT staff are needed, according to Taskforce 2000.

Computer service companies such as Cap Gemini have developed software tools to speed conversion of software, and some work is being sent to contractors in developing countries such as India, where wage rates are lower.

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STOCK MARKET INDICES

Index	Value	Change
New York Composite	7329.75	+40.35
Dow Jones Ind	7329.75	+40.35
NASDAQ Composite	1392.58	+12.23
Europe and Far East		
CAC40	3854.48	+23.04
DAX	3825.74	+20.12
FTSE 100	4597.8	+5.0
Nikkei	20,953.16	+111.31

US LUNCHTIME RATES

Instrument	Rate
Federal Funds	5.5%
3-mth Treasury Bill	5.057%
Long Bond	5.95%
Yield	5.979%

OTHER RATES

Instrument	Rate
UK 3-mth Interbank	6.5%
UK 10 yr Gilt	10.5%
France 10 yr OAT	9.5%
Germany 10 yr Bund	10.1%
Japan 10 yr JGB	10.5%

NORTH SEA OIL (Argus)

Crude Oil	Price
Brent	\$18.58
UK	\$18.16

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French Socialists attack cuts in car jobs

By David Owen in Paris and Haig Simonian in London

Tension is mounting between the French Socialists and the country's struggling carmakers within days of the left's emphatic general election victory.

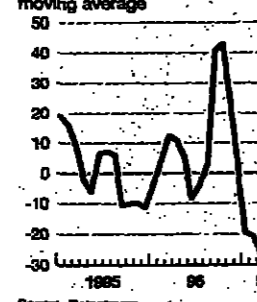
Two leading party figures yesterday criticised the carmakers Renault and Peugeot-Citroën for their measures to cut costs.

Ms Elisabeth Guigou, the former European affairs minister, hit out at Renault's recent decision to close its Villeneuve factory in Belgium, saying the company was "brutal" and had not "explored every possibility". She called for new discussions to explore whether "there are other possible

France

New car registrations

Annual % change in 3-month moving average



courses of action". She said the measures demonstrated the need for "a special European strategy in the automotive sector".

Mr François Hollande, the senior Socialist spokesman, criticised Peugeot's handling of the announcement of more than 2,800 job cuts in France for the year starting next month.

He said it was "not normal" that France's new left-wing majority had not been informed of the move, or that the announcement should come so soon after Sunday's vote. "We will not allow the carmakers to do away with jobs without referring the matter to the public authorities," he said.

He continued: "There is a real problem in the car industry; that is why we must get consumption going again."

Peugeot said the timing of the announcement was a coincidence. Yesterday's comments came in the wake of monthly figures showing new car registrations in France in May down 23 per cent from a year earlier at 120,593 units. This brought the running total for the year to date to 691,465 registrations, 22.6 per cent lower than the same period of 1996. The collapse is largely explained by the termination of a government and industry incentive scheme.

The French carmakers, along with Fiat of Italy, have been worst hit by falling sales, with registrations of new Peugeot-Citroëns down 28.3 per cent in the year so far and Renaults down 20.4 per cent.

Manufacturers have become progressively more pessimistic about prospects for the French car market. Peugeot-Citroën is forecasting a 13.3 per cent year-on-year decline to some 1.65m units this year.

Mr Jacques Calvet, Peugeot-Citroën chairman, suggested France was likely to be only the fourth-largest European new car market in 1997, behind Germany, the UK and Italy.

Emu commitment has high price for Waigel say economists

Peace made with Bundesbank

By Andrew Fisher in Frankfurt and Lionel Barber in Brussels

Mr Theo Waigel, the German finance minister, has been left severely weakened by the hurried moves towards settlement of his government's dispute with the Bundesbank over the revaluation of its gold reserves, economists said yesterday.

The moves may have kept Europe's single currency on track they said, but at what cost to Mr Waigel's reputation?

Under the deal between the government and the central bank, the revaluation of gold reserves will still take place but proceeds will not be transferred to Bonn until next year. Details of how the budget gap will be filled and

the criteria for European monetary union met have yet to be worked out.

"This is a double whammy for Mr Waigel," said Mr Stefan Schneider, Frankfurt-based economist at Paribas Capital Markets. "Not only does he not get the money for the 1997 budget, but he has lost credibility in a big way."

But he added: "Mr Waigel's attack on the Bundesbank shows a 100 per cent commitment by the government to Emu. If he is prepared to sacrifice his credibility, it shows how important this is."

With the German public already sceptical about Emu, Mr Waigel's helicopter dash to the Bundesbank two weeks ago to press his controversial gold revaluation

plan has certainly not made the euro more palatable. "It was a miscalculation and he has had to take a few blows to get out of the situation," said Mr Thomas Mayer, chief German economist at Goldman Sachs in Frankfurt.

"It is a policy of trial and error," he added. He thought the government would not be able to find enough money this year for Germany to be able to meet the budget criteria for Emu, under which the deficit has to be within 3 per cent of gross domestic product or moving towards that level.

Mr Mayer also said the message from the gold revaluation episode and the French election, was that Emu would start with a less restrictive fiscal policy than previously promised. The

European central bank would have to counter this by tighter monetary policies.

Speaking before the outlines of a settlement emerged, Mr Edgar Meister, a Bundesbank director, warned financial markets not to assume prematurely that Emu would start on time in 1999. "The way towards European monetary union is proving more stony for several countries - including Germany - than was assumed."

The European Commission breathed a sigh of relief at the end of the German stand-off. Without a deal, the Commission and Eurostat, its independent statistical arm, would have faced the delicate task of passing judgment on whether the revaluation plan met the terms

of the Maastricht treaty. Officials acknowledged that the gold compromise would not end the volatile domestic debate in Germany where three quarters of the public are sceptical about giving up their D-Marks.

Another unknown is how the French Socialist victory will affect the Emu project. The chief worry in Brussels is the Socialists may try to unstick the accord reached last December between the French and German governments on budget discipline.

During the election campaign, the Socialists criticised the pact as too rigid, especially the proposed fines on countries breaching the deficit ceiling of 3 per cent of gross domestic product.

Editorial Comment, Page 11

Communists ready to take part in Jospin government

By David Owen in Paris

France looked last night to be on the verge of getting its first communist ministers in more than a decade after Mr Robert Hue, national secretary, proposed that his party take part in Mr Lionel Jospin's new Socialist-led government. The move is likely to reinforce concerns that the government will adopt a more sceptical line on Europe.

The two largest of the other left-wing parties, the Eurosceptic Citizens' Movement and the Radical Socialists, also said last night that they were ready to take part in Mr Jospin's government. The cabinet line-up will be announced today.

On the right, the jostling for power in the defeated RPR/UDF alliance intensified with several senior RPR members urging Mr Alain Juppé, the ousted prime minister, to stand down as party president and Mr Raymond Barre, a former prime minister, urging President Jacques Chirac to "pay the price".

Mr Juppé later announced an extraordinary meeting of the RPR to elect a new president "as soon as possible". He also announced the appointment of Mr Jean-Louis Debré, the former interior minister, as interim secretary-general of the party.

This jockeying for position was mirrored in the ranks of the UDF, where Mr Gilles de Robien resigned as the president of the party's group in the National Assembly to prevent its "balkanisation". Mr de Robien looks set to be succeeded by Mr François Bayrou, the former education minister. Mr Bayrou had been thought keen to establish a separate centrist group in the new parliament.

The new prime minister's entourage let it be known that he planned to accompany Mr Chirac to important forthcoming international meetings, including the European Union summit in Amsterdam on June 16-17 and the Group of Seven summit in Denver on June 20-22.



Alain Juppé waves to staff after handing over to Lionel Jospin (left)

As business leaders waited anxiously for clear indications of the new government's stance on the main economic issues, Ms Nicole Notat, moderate leader of the CFDT trade union, defended the planned

German row grows over status of Landesbanks

By Andrew Fisher

Germany's private sector banks yesterday took a more aggressive line in their dispute with their public sector counterparts, accusing them of political blackmail in linking the preservation of their competitive status to their support for the planned European single currency.

The draft protocol, tabled by the Belgian government, will be presented for inclusion in the EU's founding treaty, due to be revised at the Amsterdam summit in two weeks.

It would allow governments to provide public broadcasters with unlimited funding even if this resulted in a competitive distortion.

Commercial broadcasters fear their publicly owned

competitors would use the freedom to cross-subsidise new activities, such as digital television and "online" services.

"The commercial broadcasters would have to compete with a public system which could in theory have access to unlimited resources," said Mr Mojto, speaking on behalf of the Association of Commercial Television.

The plans already have the backing of a majority of member states, including Germany. However, some countries, including Finland, the UK and Spain, have doubts and may put forward amendments.

To become an integral part of EU law the protocol would have to be supported unanimously by the 15 member states.

is the high credit ratings awarded to public sector banks because of their guarantee status.

Mr Robin Monro-Davies, managing director of IBCA, the London-based credit rating agency, said if the amendment succeeded, "it would be a tremendous blow to the idea of a level playing field in Europe".

Bank Austria privatisation, Page 14

Sweden says No to first wave of 'uncertain' Emu

By Greg McIvor in Stockholm

Sweden's ruling Social Democratic government yesterday excluded the country's participation in the first wave of the proposed European single currency in 1999, declaring the project "very uncertain" and lacking in public support.

The announcement, by the SDP's national executive committee, confirmed months of speculation.

The prime minister, Mr Göran Persson, stressed, however, that the decision to delay "did not close the door forever" on Swedish participation in Emu.

Were circumstances to change, he said, Sweden could consider joining after the next general election, due in September next year.

Mr Persson committed the SDP to holding a general election or referendum on Emu were it to decide at a future date to recommend Swedish entry.

By holding open the possibility of Emu entry before the 2002 general election, the SDP's No was somewhat softer than analysts had

expected. The bond market had closed when the announcement came but the Stockholm bourse rose 0.6 per cent in late trading and the krona strengthened against the D-Mark.

Economists said the decision gave the government room for manoeuvre should public opinion soften. However, a rigorous fiscal regime would be required to enable Sweden to stand on the sidelines.

Mr Göran Jonsson, leader of the big Metall industrial workers' union and a member of the SDP national executive, said the decision opened the chance for Sweden to join before 2002. But the Federation of Swedish Industries called the outcome "extremely regrettable", saying it would create uncertainty and damage the economy.

Mr Persson said he took fears that Sweden might be penalised by financial markets for staying out "with a pinch of salt".

Mr Persson predicted public antipathy to Emu would ease once Sweden's economic recovery took root and unemployment - currently at record levels - fell.

EUROPEAN NEWS DIGEST

Germany fines cable makers

The German cartel office yesterday fined 14 manufacturers of high voltage cables DM265m (\$155m) for illegal price-fixing and market manipulation. The cartel office said the companies, led by Siemens, had established a "wide-ranging hierarchically structured organisation" to fix market share and prices within the industry.

It said the economic damage was incalculable as the cartel system had been in operation since 1902 and therefore no comparisons could be made to a non-rigged market. The fine, the highest handed out by the cartel office, represents some 10 per cent of the sales of the higher high voltage cable manufacturers. Siemens was fined DM55.8m. The overall burden on the Munich-based company, however, will be higher as one of its subsidiaries, the east German company Bergmann Kabel und Leitungen, was fined DM30m.

Other companies fined include Kabel Rheydt, Feiten & Guilleaume Energietechnik and ABB Kabel und Draht. The cartel office is still investigating two smaller companies - KWO Kabel, a Berlin-based subsidiary of BICC, and Wasknig + Walter. Siemens said it had decided not to appeal against the decision.

Separately, the cartel office said it was investigating claims of uncompetitive behaviour in the cable television sector by Deutsche Telekom, the partially-privatised telecoms company.

Frederick Stüdemann, Berlin

Italy unveils draft euro law

Italy, confident it will be among the first countries to adopt the European single currency, unveiled a draft law yesterday covering the introduction of the euro and said it would convert its debt mountain into the new money.

"This is not just a formal thing but also a demonstration that we are going forward - it means we are beginning the operational aspects," said Mr Romano Prodi, the prime minister, after his cabinet had approved the bill.

The draft law must be ratified by both houses of parliament, but little opposition to the package is unlikely since most Italian parties are in favour of European economic and monetary union (Emu).

Mr Carlo Azeglio Ciampi, treasury minister, said the government would convert all its negotiable public debt into euros from January 1 1999. "This will favour the creation of a critical mass in euros on the markets which will give assurances and will increase the credibility of the system."

Belgium, France, Austria and Spain have already said they will convert their outstanding debt into the euro, while there is still some uncertainty over Germany's position.

Reuter, Rome

Hungary sees rise in jobs

First quarter figures showing an increase of 10,000 (0.3 per cent) in the number of people employed means a 10-year trend has been reversed, Mr Peter Kiss, Hungary's labour minister, said yesterday.

Quoting Central Statistical Office figures, due to be published today, he said increases in employment now paralleled improvements in the economy. In a population of 3.6m, registered jobless figures fell 10,500 in May to 471,800, an improvement of 18,000 on the same month last year. Most jobs created were in the services sector. CSO figures put the rate of unemployment at 9.4 per cent, 1.5 per cent below the EU average. Mr Kiss said, Support worth Ft30bn (\$160m) would be made available for further job creation he said.

The latest figures are consistent with data on industrial production which shows a 6 to 7 per cent increase in the first quarter, said Mr Gabor Oblath research director at Kopint Datorg, a Budapest based research company. "It's an indication of a turnaround. I don't know if domestic sales have risen, or whether it's just from exports," he said.

Kester Eddy, Budapest

Portuguese cement sales up

Cement sales in Portugal are estimated to have risen by 22.5 per cent in the first quarter of this year compared with the same period in 1996. The rise emphasises the strength of the country's construction market, which has been bolstered by spending of EU structural funds on infrastructure.

The Association of Construction and Public Works Companies estimated that 850,000 tonnes of cement were sold in April, 23 per cent more than in the same month last year.

Andrew Taylor, London

Pope blesses EU ambitions

Pope John Paul II yesterday backed the claims of all the ten central European countries for European Union membership. He told central European leaders: "Europeans should co-operate and groupings which are currently being formed should not exclude any country even the weakest." The call was delivered in Gliwice in Poland at a meeting with the presidents of Germany, the Czech and Slovak republics.

Hungary, Poland and Lithuania, all of which have applied to join the EU.

Also present was President Leonid Kuchma of Ukraine which appears determined to forge close political links with the central European region to balance relations with Russia.

Christopher Bobinski, Warsaw

Irish election brings the independents into focus

Main parties' concern is seen in warnings of instability, writes John Murray Brown

The growing prospect in Ireland of a hung parliament is concentrating minds as Mr John Bruton, the prime minister, and his main rival, Mr Bertie Ahern, Fianna Fail leader, prepare for Friday's general election.

The possibility that neither prospective alliance - the outgoing coalition of Mr Bruton's Fine Gael, Labour and Democratic Left (DL), nor the Fianna Fail-Progressive Democrat (PD) team - will have the necessary 89 seats to form a government, has turned attention to the independents, whom some see holding the balance of power.

Minority governments have fared reasonably well in the past, but it is an indication of the main parties' concern, that both Mr Bruton and Mr Ahern this week

warned of the dangers of political instability.

The 200-odd independents - Greens, republicans and a variety of sometimes eccentric single-issue candidates from the Catholic right to the Legalise Marijuana party - provide a telling measure of the disaffection with the political system. This is pronounced among young voters and in rural Ireland, where much of the grievance is targeted at Brussels over fisheries and farm policies.

Dr Garret Fitzgerald, the former Fine Gael prime minister, says Ireland has not seen such alienation from the traditional party system since the 1940s.

Few analysts believe the independents' current rating - 16 per cent nationally and

40 per cent in one west of Ireland constituency - will translate directly into seats in the 166-member parliament under Ireland's proportional representation system. But opinion polls have tended to underestimate actual votes cast for independents.

Dr Fitzgerald predicts they could pick up 10 seats in the new Dail, which if the result is as close as polls suggest, would make them the king-makers in any new government.

Mr Richard Sinnott, professor of political science at University College, Dublin, points out that many of the independent votes will return to the main parties under the system of transfers, whereby when a voter's

first preference candidate is eliminated, his vote is transferred to the second choice.

But even if the independents fail to make the breakthrough some are forecast, the transfers could be decisive in shaping the new government.

Ireland has had its maverick issues before: whether it was the trout rod licence controversy in the late 1980s or the pot-hole candidates of earlier elections.

In the run-up to calling an election, Mr Bruton shrewdly neutralised two of the most contentious local issues. In a populist move, the government offered to review the position of operators of unlicensed transmission stations broadcasting British TV to the west of

Ireland. At one stage, the so-called deflector lobby had threatened to stand candidates.

Separately, the local government finance bill, passed in the same week Mr Bruton announced the election date, silenced those calling for rural water charges.

Mr Ahern has said that even if the government's majority depends on it, he has ruled out bringing Sinn Féin, the IRA's political wing, into his coalition in the event of an inconclusive result. Fianna Fail is keen not to alienate potential PD transfers, though party strategists expect Sinn Féin will be a source of key transfer votes in a number of border constituencies.

In the outgoing Dail, there were six independents, including one Green. Polls suggest the Greens could secure as many as three seats this time, and Sinn Féin may take Cavan-Monaghan at the expense of Fianna Fail.

The threat posed by independents is potentially greatest for Mr Ahern, as the bulk are disaffected former Fianna Fail officials.

Some of the independent vote will return to Fianna Fail on subsequent counts. Prof Sinnott says: "In the past, independent transfers have tended to go anywhere but Fianna Fail". The government can expect to pick up Green transfers, while Labour and DL will benefit from some urban-based left-wing candidates.

It seems that such is the continuing acrimony between the main centre-right parties in rural Ireland, that Fianna Fail supporters are ready to vote for Mr Lowry merely to spite the official Fine Gael candidate.

FINANCIAL TIMES
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NEWS: EUROPE

IMF approval for Bulgarian budget

By Theodor Troev in Sofia and Richard Adams in London

Bulgaria's hopes for a rapid strengthening of its economy were bolstered yesterday by International Monetary Fund approval of the country's 1997 budget framework, which will be submitted to parliament shortly.

The Bulgarian government also announced yesterday that it wanted to anchor the lev, the national currency, to the German D-Mark at a fixed exchange rate of Lv1,000 from the start of next month.

The IMF has agreed with the government an overall budget deficit of 6.2 per cent of gross domestic product as part of the deal to back a currency board monetary system, according to Mrs Ann McGuirk, IMF mission leader. This is higher than the 3.8 per cent target set initially by the Fund, but Mr Muravel Radev, finance minister, explained that this was the only achievable balance between budget expenses

and revenues. "Bulgaria is still experiencing a decline in industrial production," Mr Radev said. Revenues in the Lv16,150bn (\$10bn) budget are estimated at 27.3 per cent of gross domestic product, and expenditures at 33.5 per cent. Revenues from privatisation are expected to cover 3.6 per cent of the deficit.

As soon as the IMF board approves the review mission's report, a tranche of \$130m is expected to be released from the \$658m loan package sanctioned by the board last March.

The issuance department of the central bank, which will assume the functions of the currency board management, will therefore have around \$1bn in foreign exchange reserves by July 1, when the tight monetary system is introduced.

Under the currency board, money supply will be tied to the level of foreign exchange reserves. The system will deprive the government of the power to subsidise the budget or bail out loss-making enterprises.

Mr Ivan Kostov, prime minister, said yesterday that the government's proposal to peg the lev to the D-Mark at Lv1,000 would be included in the central bank bill which has to be adopted by parliament this month as part of a package of laws needed for the introduction of the new monetary regime.

Emerging market currency analysts in London said the lev had appreciated recently against the D-Mark and the US dollar, the denominations that account for about 60 per cent of Bulgarian foreign-denominated trade. Yesterday the currency was trading at around Lv950 per D-Mark, and around Lv1500 against the dollar.

However, in March the IMF had envisaged a lower value for the lev against the dollar - Lv2,000. Some London analysts think the Lv1,000 level against the D-Mark is too strong, since the German currency is likely to rise against the dollar, forcing the lev and the Bulgarian trade deficit up with it.

Serbs fed up with cash crunch

Guy Dinmore on discontent at the government's tight monetary policy

Armed with an umbrella and shopping bag, Mrs Ljerk Janjic marches resolutely in the rain through Belgrade. Her fellow demonstrators hold banners demanding "Don't lie to us any more" and "Keep your promises".

After a winter of pro-democracy protests Serbia now faces a summer of discontent as the government struggles to find cash to pay its workforce. Mrs Janjic, a teacher for 40 years, was one of some 2,000 pensioners who rallied last week to demand their pensions. They are still waiting for March payments.

Health workers and some teachers have been on strike throughout Serbia for three weeks. Wages for doctors and nurses are two months in arrears and hospitals have exhausted their funds. Patients bring their own sheets, medicines and food. Even when she does get her salary, Dr Natasa Ristic, a radiologist at Belgrade's KBC hospital, says 1,600 dinars (\$27) a month keeps her family going for just a week. Doctors sell cigarettes in the streets to supplement their incomes. Unemployment is running at about 30 per cent.

Money is so scarce throughout Serbia that even black market traders are short of dinars and companies are resorting to barter to meet their payments. One businessman said he accepted payment in the form of a lorry-load of fresh meat.

The scarcity is a far cry from the crisis of the early 1990s when inflation ran into trillions of per cent and Serbia was awash with

Serbia: tight, loose, tight again



worthless paper. Now the central bank is attempting to stick to a tough monetary policy. Money in circulation and short-term deposits, M1, actually fell by 200m dinars to 5.3bn in the first quarter. "A fall in money supply is almost unheard of," said Mr Pavle Petrovic, a professor of economics and research at Cezmsec, a private research and consultancy firm.

The authorities, he said, took fright after the central bank printed a modest amount of unbacked dinars

in December to pay state-sector workers and pensioners. The dinar immediately nosedived on the black market in some parts of the country by 40 per cent to 5.0 to the D-mark. The government's inflation target for 1997 was zero but prices ended 60 per cent up on the year.

Since the start of the year the dinar has climbed its way back up to 3.5 to the D-mark, close to its official rate of 3.3. Inflation has tumbled.

"It's an important achievement. This is the right envi-

ronment for reforms to start," commented Prof Petrovic. Serbia could begin to hope to attract short-term credits, he added.

The government's room for manoeuvre is constrained by a fiscal deficit of 3.4 per cent of gross domestic product and a balance of payments deficit that reached 8 per cent of GDP last year.

Unlike other governments, Serbia is unable to raise money on the domestic market as investor confidence is almost non-existent. Access

to foreign loans is mostly blocked by political conditions attached by the European Union and the US on its re-entry into the International Monetary Fund.

Prof Petrovic noted that industrial production in the first quarter of this year was 3 per cent less than in the last quarter of 1996, and if the current trend persists then the growth rate for 1997 will be zero.

"It seems a kind of recession is coming out of this tough monetary policy," he said.

Serbia faces parliamentary and presidential elections by the end of the year and analysts expect the ruling Socialist coalition will eventually loosen money supply and try to appease an angry electorate by meeting back payments of wages and pensions.

"It's very common in this part of the world to give excess wages at times of elections," Mrs Danica Popovic, an economist commented.

She said Mr Slobodan Milosevic, the Serbian president, was pursuing a tight monetary policy to stabilise the dinar as a "symbol" of economic progress but had no overall strategy of reforms such as privatisation or closure of loss-making state enterprises.

Serbia's industrial output is about 40 per cent of the level reached in 1989, while capacity utilisation is 36 per cent.

"We now have a stable currency without growth. It's a typical recession. The real unemployment rate is over 50 per cent," Mrs Popovic said.

Russia moves to unify markets supervision

By John Thornhill in Moscow

Russia's Federal Securities Commission yesterday welcomed government moves to overhaul the supervisory regime for the country's unruly capital markets, saying they would lead to clearer and more effective regulation.

But industry observers suggested the commission had lost out to the central bank in a battle to shape the course of Russian capitalism. Russia's commercial banks were now likely to play an even more influential role in the economy.

Mr Alexander Kolesnikov, deputy chairman of the securities commission, said the decision to unify the regulatory regime for both debt and equity markets would enable the central bank and commission to combine their strengths. This would lead to

more rigorous scrutiny of licensing and trading procedures in both markets.

Previously, the central bank had primary responsibility for regulating the government debt market while the Federal Securities Commission monitored the equity market.

But these split responsibilities led to frequent and furious turf wars between the two agencies.

Mr Anatoly Chubais, first deputy prime minister, said the main task of the state regulators would be to defend shareholder rights and to enable privatised companies to issue shares and bonds. They would also encourage the creation of common registry, custodial, and dealing systems for both the debt and equity markets, he said.

The Kommersant business newspaper described the government's move as a

"Waterloo" for Mr Dmitry Vasiliev, the chairman of the securities commission, who had tried to build up Russia's capital markets along Anglo-Saxon lines.

With the help of foreign experts from the Harvard Institute for International Development, a US-sponsored advisory group, Mr Vasiliev had encouraged the development of an open stock market and a mutual fund industry.

But Mr Chubais, who had previously strongly backed Mr Vasiliev's commission, now appears to have heeded the pleas of the banking lobby, which was highly critical of Mr Vasiliev.

Investors broadly welcomed the regulatory changes, hoping it would stimulate the development of the market infrastructure and end the damaging public rows between the central bank and the commission.

UK will press Ruhe on fighter

By Bruce Clark in Washington

Mr George Robertson, the UK defence secretary, will today urge his German counterpart, Mr Volker Ruhe, to maintain funding for the Eurofighter project as an important part of the continent's industrial base.

"I hope to get over the message that an early decision is critical for the success of the project," the UK minister said in Washington, where he held talks at the Pentagon on European security and US-UK defence links.

"We are committed to this aircraft, not just as a military project, but also because it involves a large amount of the civilian defence industry," said Mr Robertson, referring to the four-nation effort in which up to 150,000 jobs are at stake. A budget squeeze in Bonn has left the project short of funds to set up production lines. Unless a solution is found, Daimler-Benz Aerospace, the German industrial partner, could run out of money to pay subcontractors next month.

Under one short-term solution, Daimler-Benz would be allowed to transfer to its Eurofighter account DM250m (\$146.5m) in credits which it received from the German government to help launch Airbus and which are due for repayment in 2000. Mr Ruhe has also offered to transfer to the Eurofighter funds due to be spent on upgrading tanks, armoured cars and munitions.

On other European security issues, Mr Robertson confirmed the first wave of Nato enlargement would probably embrace only three countries - Poland, the Czech republic and Hungary. While absorbing Slovenia "would not disturb" Nato excessively, it appeared that Romania "might be too much to swallow," he said.



From left: Paul Volcker, Edgar Bronfman and Avraham Hirschson discuss claims process in Jerusalem yesterday

Volcker probe to widen scope

By Avi Machlis in Jerusalem and William Hall in Zurich

The Volcker Commission, set up by Swiss banks and Jewish groups to investigate dormant bank accounts of Holocaust victims, has been expanded to oversee the development of a claims adjudication process in an attempt to speed the recovery of funds still held by Swiss banks.

The decision is a snub for Mr Hanspeter Hani, the Swiss banking ombudsman, who until now has been the sole mediator in disputes between Swiss banks and their customers. When concerns over dormant bank accounts first surfaced last year, he was designated as the main contact point for people searching for dormant bank accounts which they believe are held by Swiss banks.

The commission's decision to expand its role coincided with the announcement in Jerusalem yesterday that its investigators would be entering Swiss banks to conduct pilot audits and document retention audits "within a matter of days".

The work of the commission, headed by Mr Paul Volcker, former US Federal Reserve chairman, had been delayed for several months because the accountants hired for the investigation wanted insurance cover

against possible claims from those disputing their findings.

The first five Swiss banks in the pilot audits are - Credit Suisse, Swiss Bank Corporation, Spar und Leihkasse Berne, Banque Cantonale Vaudoise and Pictet & Cie. In addition, the commission said it would conduct document retention audits focusing on five more banks: Banque Baumann, Banque Cantonale de Geneve, Bank Julius Baer, St. Gallische Kantonalbank and Union Bank of Switzerland.

UBS was heavily criticised after it was disclosed that it broke a Swiss government ban on shredding historical documents. However, Mr Volcker pointed out that these particular banks were not chosen out of suspicion, but rather as representative banks.

The Swiss Bankers Association had no comment on the plan to take over part of the work of the Swiss banking ombudsman. However, the proposed claims settlement procedure appears to be far more lax than the current regime operated by the Swiss banks.

Mr Avraham Hirschson, chairman of the Israeli Knesset restitution committee, said his committee had received 7,000 letters from potential claimants in Israel since it set up an information centre last December.

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NEWS: INTERNATIONAL

Nigerian military retires hurt

Botched intervention in Sierra Leone has left the army regime morally exposed

Military officials in Nigeria closed ranks last night after Monday's botched effort to intervene in Sierra Leone in which soldiers from one of Africa's largest and richest nations were forced to withdraw under fire from fighters of one of its smallest and poorest.

Speaking from exile in the Guinean capital, Conakry, Mr Ahmad Tejan Kabbah, Sierra Leone's deposed president told the BBC's African Service that he had invited Nigeria to take military action to overturn an army coup 10 days ago.

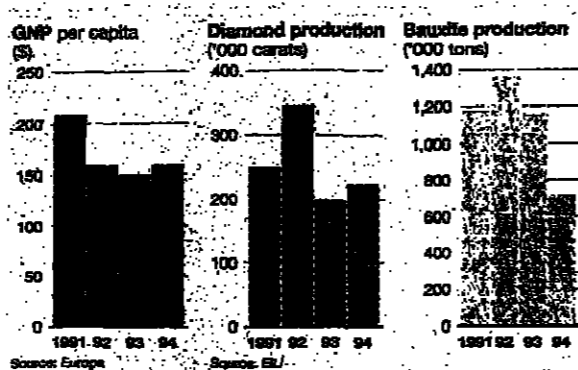
"There is complete anarchy in the country at the moment," he said. "Somebody needs to restore law and order there."

Despite many nods and winks from western powers and anxious appeals from Sierra Leonean diplomats, Nigeria had no mandate from either the United Nations, or from the Organisation of African Unity (OAU).

While no official explanation has been given for the intervention, Mr Tom Ikimi, Nigeria's foreign minister, said at the weekend that his country had been prepared to work with its neighbours in taking "appropriate measures" to help restore Mr Kabbah's elected government.

However, Mr Abbas Bundu, a former executive secretary of the Economic

Sierra Leone



Few recognise any irony in the restoration of democracy in Sierra Leone by a regime which came to power after the army annulled elections

Community of West African States (Ecowas), has insisted that the sub-regional grouping at present chaired by Nigeria has no mechanism to allow for such action. He described Monday's events as "totally unwarranted and unjustified".

Nigeria began a naval bombardment which quickly exposed the vulnerability of its troops on the ground to the new alliance between government troops and former rebels which has been forged since the coup. How strategic planners could have so miscalculated the situation is now as much a matter for speculation as what Nigeria will do next.

"A swift, clean operation

would have shown the world of what we are capable," one defence official said. "We could have eased this talk of sanctions and presented ourselves again as the friends of western interests".

Few in government, however, recognise any irony in the restoration of democracy in Sierra Leone by a Nigerian regime which itself came to power after the army annulled elections in 1993. Nor have officials squared their persistent criticism of western powers' alleged interference in the country's internal affairs with the now robust involvement of the head of state, General Sani Abacha, in Sierra Leone's domestic problems.



James Jonah, Sierra Leone's UN envoy: coup to end soon

Nigeria may also have been anxious to alert its own people to the dangers involved in allowing security to be challenged at a time of rising frustration over the manner in which the country's latest effort at transition to civilian rule is being handled and continuing economic decline. The Provisional Ruling Council will certainly have been keen to impress on junior officers and below the dangers involved in trying to mount a coup.

But while the prospect of easy success had its many attractions, the risks involved in failure are immense. "Nigeria now has so much at stake that it will

be very hard not to press ahead," one defence attaché in Lagos noted. "But exactly what they hope to achieve and how long it might take is harder to predict."

In 1990, General Ibrahim Babangida, Nigeria's previous military ruler, led a multinational regional force into Liberia to try to end chaos and civil strife there. That force remains in place today, and is only now close to realising its mission to help restore constitutional government.

Sierra Leone's internal problems are at least as complex. While the elections which brought Mr Kabbah to power were widely regarded as free and fair, his government failed to arrest the decline of an economy blessed with a wealth of natural resources but now among the poorest in the world. He proved incapable of dealing with dissent within the military which accused him of ethnic bias, and of failing to deliver a genuine peace to end a brutal six-year civil war.

Both army and rebels accused him of using traditional hunters, the Kamajors, as a personal militia. "Sierra Leone is a mess," said one diplomat in Lagos. "They didn't seem to have their answers to their problems, and nor do we. But if Nigeria wants to try, we wish them good luck."

Antony Goldman

Global banks set up plan for self-regulation

By George Graham in Interlaken

Leading international banks are planning to set up a new system of global self-regulation to cut through the maze of national banking regulations.

The Group of 30, a Washington-based think-tank grouping banks, academics and government officials, is to recommend the creation of a standing committee to set standards for evaluating the risk management procedures and internal controls of global financial institutions.

Mr John Heimann, chairman of global financial institutions at Merrill Lynch, the US-based investment bank, said the G30 working party had concluded that there was "an inherent contradiction in national supervision of global firms and global markets".

"More effective global supervision is needed, but the creation of a supranational supervisory body is neither realistic nor desirable," Mr Heimann said after presenting the G30 conclusions yesterday to a meeting of senior bankers in the Swiss resort of Interlaken.

The standing committee proposed by the G30 could

establish a benchmark for the financial industry. Banks which failed to comply with its standards could be penalised by being asked to put up more collateral in interbank dealings, for example.

The G30 has had previous successes, such as the establishment of industry standards for the disclosure of financial derivatives activity.

Banking and securities supervisors have been struggling to work more closely in the wake of financial disasters such as the collapse of Barings, which cut across national and industry boundaries.

The seven leading industrial nations have been looking for ways of improving global financial regulation, and their leaders will discuss the issue again at this year's world economic summit in Denver.

Private sector institutions fear that efforts to agree binding international standards among regulators would result in delay, inflexibility and ineffective rules.

"Overly dense regulation makes things worse by creating an illusion of security that does not exist," said Mr Ulrich Cartellieri, a board member of Deutsche Bank.

Call for deep cut in fishing subsidies

By Frances Williams in Geneva

Environmental groups yesterday called for urgent international action to slash fishing subsidies worth more than \$50bn a year that have encouraged overfishing and the catastrophic depletion of world stocks.

A meeting in Geneva hosted by the United Nations Environment Programme and the Swiss-based World Wide Fund for Nature singled out subsidies to fleets in distant waters, a criticism aimed chiefly at the \$230m a year spent by the European Union in subsidising fishing off the coast of Africa.

According to the UN Food and Agriculture Organisation, marine fish catches have fallen since 1988, following a five-fold increase after the end of the second world war.

Many fish species are on the verge of extinction.

Swiss find Mobutu money

By William Hall in Zurich

The Swiss banks have found \$4.8m (\$3.4m) of assets belonging to former Zairian president Mobutu Sese Seko and his family. The Swiss Banking Commission said six banks had reported having Mobutu-related accounts.

Switzerland, whose bank secrecy laws have often been used to hide dictators' ill-gotten fortunes, has been accused of harbouring up to \$11bn of Mobutu assets.

Switzerland froze all of Mr Mobutu's bank accounts on May 17 and blocked the sale of his luxury villa at Savigny, overlooking Lake Geneva.



Ehud Barak: aiming to broaden party support

New generation takes Labour helm in Israel

By Judy Dempsey in Jerusalem

Mr Ehud Barak was last night poised to become head of Israel's Labour party, marking the departure from political life of Labour's pre-war generation of leaders.

About 167,000 Labour members were voting across the country in a four-cornered contest which he was favourite to win. His main rival is Mr Yossi Beilin, 48, a former minister and one of the architects of the Oslo peace accords. The

other contenders are Mr Shlomo Ben-Ami, 53, an academic and the only candidate with a Sephardic or North African background, and Mr Ephraim Sneh, 52, a physician and former health minister.

All four are vying to succeed Mr Shimon Peres, 73, who took over the leadership - and the post of prime minister - following the assassination of Mr Yitzhak Rabin by an Orthodox Jew in November, 1995. Mr Peres, last of the party's leaders born before the foundation

of the modern state of Israel and who never managed to win an election as leader, was defeated in the general election a year ago which brought Mr Benjamin Netanyahu to power.

Mr Barak, 55, appears to have already carved out his strategy in his determination to unseat Mr Netanyahu, declaring himself "committed to take calculated risks in the Middle East in order to achieve peace".

While seeking to don Mr Rabin's mantle in continuing

the commitment to the peace process, he is also aiming to shift the party's political profile.

"We have to broaden our support," a Barak aide said. "We have much catching up to do in trying to win over some of the Orthodox vote as well as the working class." Both sectors of society backed Mr Netanyahu in the 1996 election on promises of peace with security, more prosperity and support for the ultra-Orthodox communities. Above all, they backed Mr Netanyahu and

the Likud party because they believed the peace process was going too fast.

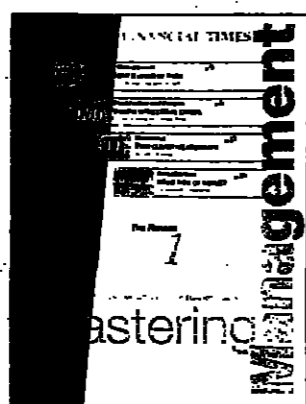
"Barak knows what he has to do," another aide said. "And he knows how to do it." As former chief of general staff, he is often called "Mr Security", emphasising his credentials that he would not be soft on terrorism and stressing his good connections with the military and intelligence, something which Mr Netanyahu lacks.

Nor would he be soft on the issue of Jerusalem. Asked about what he would

do with Har Homa, the new Jewish settlement which the Israeli government decided to build in March and which led to peace talks with the Palestinians being suspended, he responded: "I would have done things differently."

He said he would first have built lots of Arab housing in east Jerusalem in order to counter international opposition. But he would not say if he would stop building at Har Homa were he suddenly to be elected prime minister.

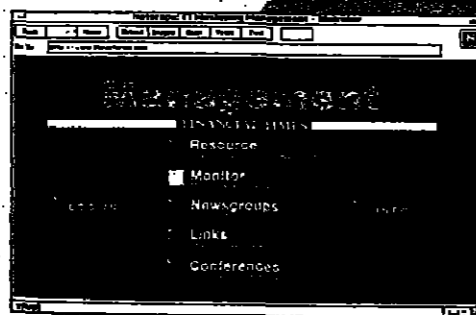
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SKF targets Japan with new bearing

By Peter Marsh
in London

SKF of Sweden, the world's biggest maker of industrial rolling bearings, is aiming to boost its share of the Japanese market with the launch of a new type of bearing. The Carb, or compact aligning roller bearing, is being promoted by the company as the most important innovation in the industry for 40 years.

The Carb is claimed to enable industrial machines to run 15 per cent more quickly than conventional systems. This would boost factory efficiency significantly, as well as allowing cars to travel further for the same amount of fuel as a result of smoother running gearboxes.

SKF thinks its Carb system should appeal in particular to machinery users in Japan, where it has just 1 per cent of the bearings market compared with a third share in Europe.

Rolling or anti-friction bearings are the workhorses of industry. About 10bn are turned out every year, for incorporation in just about every machine that uses rotary action.

The average car contains about 100 bearings, which typically comprise a pair of steel rings separated either by balls or rollers to permit smooth circular motion.

The Carb, which is just entering full-scale production in SKF plants, is based on specially shaped rollers and other parts which can move against each other in a "forgiving" manner, easing in and out of alignment without grinding to a halt.

As a result, the bearings can handle heavy loads in difficult conditions such as a high degree of vibration.

SKF is talking to large Japanese industrial companies, including automotive components company Denso (formerly Nippondenso) and the machinery arms of Sumi-

tomo and Mitsubishi, about incorporating Carb systems into their products.

Mr Peter Augustsson, SKF's chief executive, said that a priority for the company was to increase its market position in Japan, which accounts for roughly a fifth of world sales totalling \$20bn a year.

NSK and NTN, the two Japanese companies which are second and third to the Swedish company in the world bearing business, between them account for roughly 60 per cent of annual sales in Japan.

Mr Augustsson believed that by the end of next year Carb was likely to account for about 1 per cent of the

The Carb is claimed to boost speed of machinery

company's sales of SKR30bn (\$1.3bn) a year, but expected this to grow by early next century to over 10 per cent.

SKF was involved in "hundreds" of development projects involving Carb, he added. "We are talking to lots of people but we don't know how big the market could eventually be."

One steel-casting machine in which SKF had installed the device had been working flat-out for eight months without replacement. Under normal circumstances, bearings would have had to be replaced every two months.

The Carb has already been tried out extensively in paper-making machinery, making possible speeds more than 10 per cent higher than normal. Car makers are also interested in incorporating them in gearboxes.

SKF believes the ultimate market for the Carb could be vast, given that the world contains an estimated 100bn bearings and all will ultimately need replacing.

New global network will detect and act against unauthorised manufacturers and distributors

Music industry cracks down on piracy

By Alice Rawsthorn

The music industry is stepping up its efforts to crack down on piracy by creating a global anti-piracy network responsible for detecting and taking action against the manufacturers and distributors of unauthorised recordings.

The network will be run from the London headquarters of the International Federation of the Phonographic Industry (IFPI), the lobbying body representing the world's record companies.

It will be led by the IFPI's first anti-piracy director, to be appointed within the next few weeks to spearhead a team of regional directors. Each of these will liaise with national trade associations to co-ordinate activities within their regions.

Mr Nic Garnett, director of the IFPI, envisaged appointing regional directors for Asia, Latin America, western Europe and eastern Europe, excluding Russia and other former Soviet states, where piracy is so rife that a dedicated regional

director is required.

Anti-piracy activities in North America would continue to be dealt with by the Recording Industry Association of America (RIAA), the trade body which represents the US record industry, and its Canadian counterpart.

Piracy has long been regarded as one of the main difficulties facing the world's record companies. But over the past year the problem has worsened as sales of unauthorised recordings have risen sharply.

Until recently, piracy

tended to be restricted to emerging markets in Asia and Latin America but is now increasing in established music markets such as North America and western Europe, where the record companies had previously thought the problem under control.

One reason for the increase is the falling price of compact disc production equipment. It now costs roughly \$500,000 (\$817,000) to kit out a factory capable of manufacturing 3m-4m discs a year, according to Mr Gar-

nett, compared with about \$1m a year ago.

The availability of cheaper equipment has intensified the financial pressure on previously legitimate production plants, some of which have started selling pirated discs in desperation.

The RIAA seized over 200,000 illegal compact discs in the US in 1996, against just over 25,000 the previous year. Mr Garnett estimates that, on a worldwide basis, piracy cost the industry roughly \$2bn worldwide last year, against legitimate

retail sales of \$40bn. Record executives discussed the piracy issue in Rome this spring, when they decided to finance creation of the IFPI's proposed anti-piracy network.

Mr Garnett said the network should enable the industry to be more rigorous in detecting piracy, and more aggressive at lobbying for copyright protection. One priority will be to check whether apparently legitimate production plants are selling unauthorised recordings "on the side".

Hotels set for shake-up

By Scheherazade Dameschku, Leisure Industries Correspondent

The European hotel industry will be shaken up by mergers, acquisitions and joint ventures in the next few years as large international hotel chains vie to increase their presence, according to a report published yesterday.

Occupancy levels at European hotels rose by 2 per cent last year to 72.2 per cent, according to Arthur Andersen, the accountancy firm, which surveyed 1,000 hotels of three-star standard and above. Average room rates rose by 7 per cent to DM174.29 (\$102).

"As occupancy and average room rates recover from recession, hotel operators will seek opportunities to extend their distribution into their source markets, to strengthen brand recognition and reduce overhead costs," said Mr Alex Kyriakidis, partner in charge, worldwide hospitality and leisure.

Large international hotel chains, such as Marriott, Hilton Hotels Corporation and Inter-Continental, will target regional and large national players while continuing to acquire small European groups.

Consolidation is also likely in the mid-market sector as smaller groups merge or collaborate in joint ventures, in order to expand nationally and reduce overheads, says Arthur Andersen.

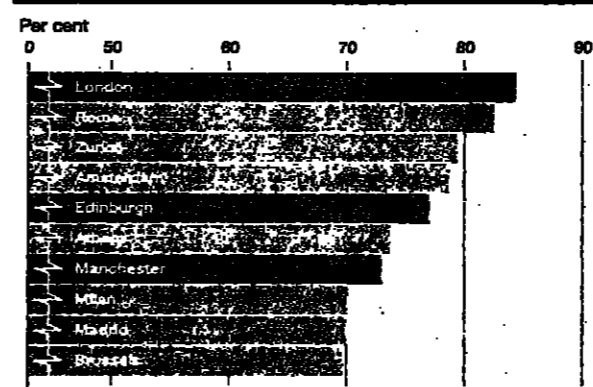
Europe received half the world's international tourism expenditure last year but the health of its hotel industry varied widely between countries.

London, buoyed by a record year for tourist arrivals, enjoyed the highest average occupancy levels of 84.3 per cent. Hotels in Rome, with marginally lower occupancy rates, were the most expensive. Average revenue per room rose by 22 per cent to DM185.13, due to a rise in tourism, a lack of new hotels and a strengthening of the lira against the D-Mark.

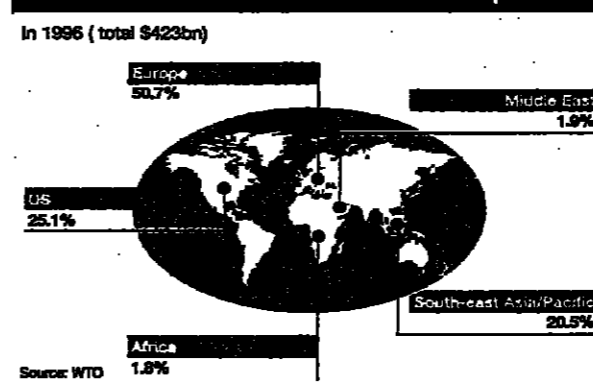
Difficult economic conditions continued to affect hotels in France and Germany. Occupancy levels in Paris were static while those in Berlin and Frankfurt fell back last year compared to 1995. However, hotel performance will improve this year in both countries, particularly Germany, due to a tentative uplift in economic performance, according to Arthur Andersen.

Higher oil prices gave a fillip last year to Middle East-

European hotels: room occupancy



Global international tourist receipts



ern economies which also benefited from the highest rise in tourist arrivals in the world.

The earlier Middle East peace hopes led to a flurry of hotel development, particularly in Jordan where average room rates rose by 11.5 per cent last year compared to 1995. But Arthur Ander-

sen, warning the faltering peace process could hit hotel-building, believes the large increase in hotel development in Jordan could damage the industry's performance medium term. "The Hotel Industry Benchmark Survey 1997, Arthur Andersen, 1 Surrey Street, London WC2R 2PS, £750.

Trade experts hear LDC call

By Keesa Naji in Dhaka

Experts from several international trade organisations are in Bangladesh to examine ways of helping the world's poorest countries integrate into the world trade order.

Poor members of the World Trade Organisation complain they have been increasingly marginalised as the volume of world trade has increased in favour of developed countries.

Least Developed Countries (LDCs) often do not know their obligations and rights under the world trading system, said Mr Alamgir Farouk Chowdhury, Bangladesh's commerce secretary. "In conferences we cannot play a meaningful role and as a result our comparative advantages are undermined and growth in trade is heavily weighed towards developed countries," he said, pointing out that last year only 1 per cent of foreign direct investment went to LDCs.

The experts are following up the recommendations of the final communiqué of the WTO summit last December in Singapore which called for steps to help 48 LDCs improve their capacity to respond to the opportunities

offered by the WTO.

"Our mission is a response to the cry for help from LDCs who want to know how they can react to the fast changing world trade climate," said Mr Khalil Rahman, senior economist from the United Nations Conference on Trade and Development, which is leading the first joint delegation of economists and development specialists from the WTO, Unctad, the Division of Technical Co-operation Co-ordination (ITC), the United Nations Development Programme and the Economic and Social Commission for Asia and the Pacific (Escap).

The result of the study is expected to form a loose model which could be adjusted for other countries with differing problems. Technical assistance to build up knowledge and trade expertise is one area where LDCs can be supported, but members of the mission said they were looking at other possibilities such as advice on how to diversify the export base of LDCs.

"Garment exports of Bangladesh, for example, form 65 per cent of the country's exports, which is far too much reliance on a single export commodity," said one member of the mission.

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Three main parties can no longer claim to represent the whole nation

Poll opens cracks in face of Canada

Canada's wartime prime minister, Mr. William Lyon Mackenzie King, once remarked that "if some countries have too much history, we have too much geography".

His observation has never seemed more apt than in the wake of Tuesday's general election.

Although the Liberals, led by Mr. Jean Chrétien, won a second majority, the election exposed all the fissures one might expect in a country that stretches across six time zones, borders three oceans, and has two official languages, dozens of immigrant communities, and a relatively small population ranging from sophisticated city-dwellers to impoverished fishermen.

Gone, at least for the next three years, are the days when three parties - the Liberals in the centre, the Progressive Conservatives on the right and the New Democrats on the left - could claim to represent the entire country.

Two-thirds of Liberal MPs in the new parliament come from Ontario, the richest and most central province. What's more, all but two of Ontario's 108 MPs are Liberals. Almost all the Liberals elected outside Ontario are from a handful of cities, notably Montreal, Winnipeg and Vancouver.

The four economically disadvantaged Atlantic provinces, previously dominated by Liberals, voted solidly for the Conservatives and New

Democrats in protest against Liberal spending cuts.

The secessionist Bloc Québécois captured more than half the seats in French-speaking Quebec, defying earlier predictions that it would fall victim to a disastrous campaign and the provincial government's fiscal austerity.

In the west, the 10-year-old populist Reform party made a virtual clean sweep of Alberta and won 23 of British Columbia's 34 seats. It also had the satisfaction of displacing the Bloc as the official opposition, but failed in its main objective of becoming a national force by making inroads into Ontario.

Mr. Chrétien, who may struggle to keep his job after a lacklustre campaign, vowed to govern for the "whole country". Political observers, however, were divided on his chances of success. The Liberals, with only a bare majority, will face four sizeable opposition parties in the House of Commons.

The Liberals gave little clue during the election campaign what they have in store for their second term, although they promised to sustain the fiscal discipline that was the main achievement of their first four years in office.

Among the divisive issues expected to dominate the new parliament is how to spend Ottawa's "fiscal dividend" as the budget moves into surplus. The Reform party and the Conservatives

have pressed for early tax cuts.

Another looming issue is Quebec's future role in Canada. Secessionists, led by Mr. Lucien Bouchard, the province's premier, aim to hold another independence referendum within the next two to three years.

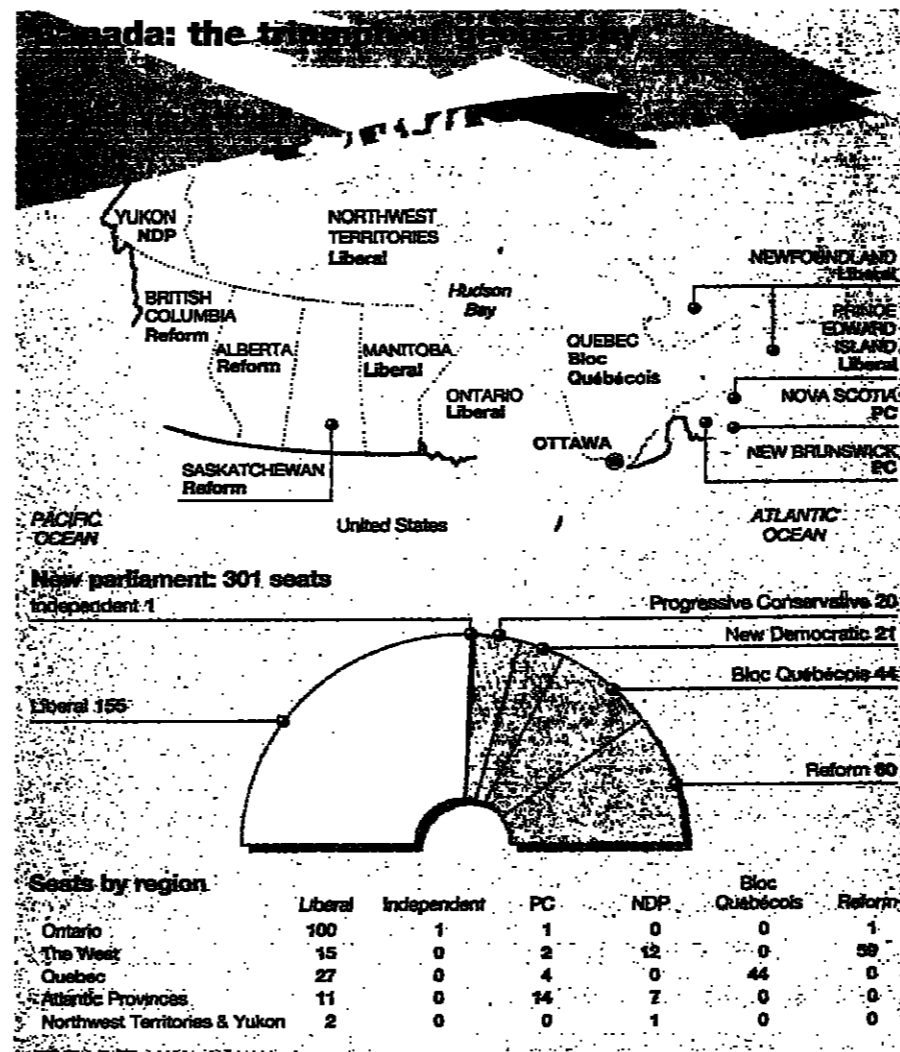
Mr. Chrétien has so far adopted a low-key, two-pronged approach. He has made some concessions to Quebec, for instance, by devolving federal jurisdiction over labour training to the provinces. This has been accompanied by initiatives - known collectively as Plan B - aimed at demonstrating to Québécois the costs and dangers of a break-up.

The Reform party has pressed for a more hardline approach. It insists Quebec should be treated the same as the other nine provinces, and wants the government to draw up an unambiguous set of demands should the Québécois vote for independence next time round.

Reform's more extreme position could polarise the national unity debate. It has succeeded in tapping latent anti-Quebec feeling in many parts of the west, where resentment simmers over Ottawa's perceived favouritism towards the French-speaking province.

One Conservative strategist described Reform's message as "dangerous but accurate".

Some Liberals, however, think Reform's hard line could provide an opening for



their party to present itself as the voice of moderation best able to hold the country together.

Mr. Jean Charest, the Conservatives' popular leader, and Ms. Alexa McDonough of the New Democrats both indicated on election night that they would take a non-partisan approach to national unity.

Similarly, the Liberals

hope that the "Gang of Four" on the opposition benches may turn out to be less of a threat than seems at present. As one Liberal strategist said yesterday: "Four noises equals zero."

One strategy for the Liberals may be to extend an olive branch to the New Democrats, who are the least threatening of the opposition groups.

However, the Liberals' challenge extends beyond Parliament Hill in Ottawa. Mr. Chrétien and others in the federalist camp will need to find fresh ways of making Canada relevant to disgruntled westerners and frustrated Québécois if Canada's future is not to be shaped entirely by its geography.

Bernard Simon



Preston Manning and his wife Sandra

Populist ready for limelight

As a candidate, Mr. Preston Manning was often introduced as the most influential figure in Canadian politics. He and his conservative Reform party did, after all, set the agenda for the campaign, forcing his rivals to respond to his controversial proposals. Now as leader of the official opposition, Mr. Manning can speak with an authority he could not claim before.

Mr. Manning has prepared for the limelight. After struggling awkwardly through the 1993 campaign, he returned to the hustings this year with a new image carefully crafted by his wife and handlers. He underwent laser eye surgery to do away with glasses, wore more casual clothing, and dyed his hair, styling it younger.

The opposition leader's political grooming, however, began long before. He learned western conservatism from his father, Mr. Ernest Manning, a populist politician who served as Alberta premier for 25 years. Mr. Manning's father was also an evangelical Christian preacher and one of Canada's earliest religious radio broadcasters.

Mr. Manning has adopted his father's politics and populist style. And in an era of party regionalisation in Canada, he was the obvious choice for most western voters. Born in 1942 on a dairy farm east of Edmonton, Mr. Manning graduated with an economics degree from the University of Alberta. After operating an Edmonton-based research and manage-

ment consultancy, he founded the populist Reform party 10 years ago in a Vancouver hotel room. In 1993 he launched the party to national prominence with the campaign theme "The West Wants In".

While his performance was considered shaky in 1993, Mr. Manning has adapted well to the public eye and has learned to use the media to his advantage. In true populist fashion, Mr. Manning's campaign stops often took on the air of town hall meetings, where he portrayed himself as a political outsider in spite of holding a parliamentary seat. He repeatedly drove home his message only Reform could shrink government and taxes, as well as resolve the thorny Quebec issue with

a "tough-love" approach. But his words were also carefully chosen for national television audiences. Snappy sound bites, shrewdly worded to be controversial, were gobbled up by the national media. Television ads were inflammatory: one lumped together Quebec politicians from all parties and implied they were not fit to govern, but in typical Reform style the advertisement did not say as much.

Critics have charged that Mr. Manning has established himself by promoting an extremist political agenda. Yet it is a tactic which has worked well for the party and Mr. Manning appears to relish his ability to reshape public opinion.

Scott Morrison

Brazil state in debt default

By Geoff Dyer in São Paulo

The state of Alagoas in the north-east of Brazil has defaulted on \$109.2m (\$102m) of debt, the latest sign of the budgetary crisis that has engulfed most of the country's state governments.

Alagoas' failure to repay maturing bonds was also the first direct impact on financial markets of the long-running congressional inquiry into allegedly fraudulent bond issues by state and municipal governments.

The federal government is refusing to bail out Alagoas. The Senate, which must approve all state bond issues, has so far declined to roll over the bonds. The city of Osasco in the state of São Paulo also defaulted on bonds worth \$229.1m.

"The states which are in the same situation as Alagoas, and fortunately there are few, cannot count on taxpayers' money being set aside to cover these bonds," said Mr. Sérgio Amaral, the president's spokesman. The news had little impact on Brazilian financial markets, in part because of the small amounts of bonds involved.

The fiscal crisis among Brazilian states has been caused by excessive borrowing and by the reduction in inflation, which has exposed many hidden liabilities. The state of São Paulo, the richest in the country, was forced to sign a refinancing agreement with the federal government last month for \$450.4m of debt.

Political analysts said the absence of a bail-out for Alagoas would force other states to agree to refinancing deals with the federal government, which would include commitments to sell assets and cut spending. Eight of the 27 states, including Alagoas, have yet to sign agreements.

The default is also expected to limit severely the market for new state government bond issues which is already the subject of a congressional investigation. Under Brazil's 1988 constitution, states and municipalities are only allowed to issue bonds to cover debts they are legally obliged to repay. Senators leading the congressional inquiry claim several state governments have used the proceeds from bond issues for other purposes.

Sports spree benefits mixed

By Richard Waters in New York

A multi-billion dollar spending spree on fresh venues for top league sports teams has had a mixed impact on the finances of cities across the US, according to Standard & Poor's, the credit rating agency.

The past decade has seen a rush by America's baseball, basketball, hockey and football owners to build new stadiums and arenas for their teams - often with financial backing of the cities and counties where they are based.

Some 85 per cent of the 105 sports franchises that enjoy big league status have either moved into new venues, or are preparing to do so, according to S&P. The wholesale modernisation has been prompted by the flood of television money into sports, and the demand from companies for better facilities in which to entertain.

Among the problems identified by the credit rating agency has been the tendency of some cities to provide direct public finance for facilities without then being able to generate the revenues to service the debt.

Cities have also exposed themselves to risk by agreeing to back new venues without first getting the support of local taxpayers. The cities that have done best out of the construction boom have used so-called tourist taxes, such as car rental and hotel taxes, to raise money from people visiting their venues. They have also been the ones which have invested in baseball, rather than other sports: the busy baseball season, with each team playing at least 81 games at home, means the average baseball stadium attracts 2.1m fans a year, as much as the other three sports combined.

The economic impact of such schemes, and the fear of losing long-established sports teams to rival cities eager to win major league franchises themselves, has made this one of the biggest local political issues of the decade in cities like Cleveland, Baltimore and Detroit.

According to S&P, the financial impact on cities has ranged "from modest, yet positive, to negative" and has had a direct effect on the standing of some US cities in financial markets.

AMERICAN NEWS DIGEST

US growth may slow

The US economy's impressive growth in the past six months may slow later this year, a report published by the Conference Board, an influential private-sector research group, said yesterday. The index of leading indicators, a basket of statistics that predicts economic activity about six months ahead, fell in April for the first time in 15 months.

The index fell by 0.1 per cent in April, following increases of 0.2 per cent in March and 0.5 per cent in February, the board added. The main contributors to the decline were higher weekly jobless claims, a decline in stock prices and a drop in consumer confidence. But April was widely recognised as a weaker month for overall economic activity and the leading indicators reflected that. It is far from clear whether that weakness will continue for the rest of the year.

While the data for May have not yet been compiled, some of them suggest a rebound last month. Consumer confidence was higher than for more than 20 years, stock prices reached new record levels, and the nation's purchasing managers reported a jump in manufacturing activity. In the next two weeks, a spate of other indicators of activity in May will demonstrate whether the April slowdown was the start of a broadly based deceleration in growth or merely a pause.

Gerard Baker, Washington

Anti-trust blocking move

Senator Ernest Hollings, a leading Democrat, is blocking confirmation of Mr. Joel Klein, the US Justice Department's top anti-trust official, because of concerns he would be too soft on big telecom mergers, the senator said yesterday. Mr. Klein, as acting attorney-general for anti-trust questions at the Justice Department, prompted complaints when he authorised the \$32bn merger of Bell Atlantic and Nynex in April.

The decision was interpreted by some as a sign he would be less strict than Ms. Anne Bingaman, his predecessor in the job. Mr. Hollings was said by aides to be preventing the nomination coming to a vote on the senate floor, at least until he could meet Mr. Klein and learn more about his views. If confirmed, one of the first issues with which Mr. Klein will have to deal is the proposal for a merger worth more than \$50bn between AT&T, one of the giants of the telecom sector, with the regional phone company SBC Communications.

Mr. Reed Hundt, the outgoing chairman of the Federal Communications Commission, which must also consider the merger, said that these discussions raised the question of whether it might constitute "one merger too far".

Bruce Clark, Washington

Brazil trade deficit falls

Brazil's trade deficit fell sharply to \$371m in May compared with a \$651m deficit in April, with economists attributing the drop to seasonal factors. The May figure was the best result since the same month last year. Strong exports of agricultural products, such as soy, and lower than expected oil imports were responsible for the fall. The growth in Brazil's trade deficit, fuelled by a sharp acceleration of imports, has become an increasing source of concern for economists, who fear it is putting a restraint on short-term growth and could lead to macroeconomic instability.

The May result brings total deficit for the year so far to \$4.36bn, against a \$5.5bn deficit for the whole of last year. The trade deficit is thought likely to reach \$11bn-\$13bn this year. Various measures have been taken to cut the deficit, including restrictions on consumer credit for certain goods, increased credit for exports and restrictions on import financing. However, economists expect more measures, to be directed at reducing imports of consumer goods.

Geoff Dyer, São Paulo

Mexico 'free medicines' suit

Mexico's main leftist opposition party yesterday filed suit against the ruling Institutional Revolutionary party (PRI) on charges of using public funds to win votes. The Party of the Democratic Revolution (PRD) alleges the PRI handed out free parcels of publicly funded medicine as if they were donations from President Ernesto Zedillo's party.

The charges have been filed at the attorney-general's office against the PRI gubernatorial candidate and a handful of other PRI officials in the eastern state of Campeche, one of six states with elections scheduled to take place in July. Mexico City residents will vote for their first mayor; most of the national Congress is also being contested.

The PRD said Mexico's health laws prohibited anyone tampering with public medicines and said people faced up to nine years' jail if found guilty. The PRI denies misusing state resources for electoral purposes. *Reuter, Mexico City*

Death penalty evidence today

The jury in the Oklahoma City bombing trial will hear evidence today on whether Mr. Timothy McVeigh should face the death penalty. Mr. McVeigh was found guilty on Monday of the bombing, the worst act of terrorism on American soil. Prosecutors are expected to call victims' relatives and survivors of the blast; the defence will present evidence from Mr. McVeigh's relatives to a federal jury sitting in Denver.

Mr. McVeigh was convicted under federal law of the killing of eight federal law enforcement agents. Federal law makes such murders a capital offence, but the federal government has not executed a prisoner in more than 30 years. Officials in Oklahoma, where the death penalty is more common, have said they will bring Mr. McVeigh to trial on state charges for the 160 other victims not covered by federal law. They will push for the death penalty, in an attempt to override a federal penalty they fear will be weak or may be overturned on appeal. Many of those who lost family members in the bombing are calling for Mr. McVeigh to be executed.

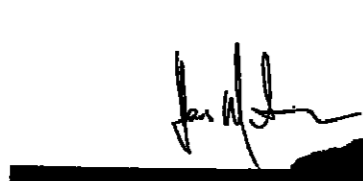
Paul Waldmeir, Washington

New York art world inquiry

The Justice Department has subpoenaed financial documents from several prominent auction houses and, it is reported, several New York art dealers. Dealers told the New York Times yesterday that they believed the government was investigating the possibility of collusion and price-fixing among art dealers buying at auction.

The possibility of "bid-rigging" or "bid-pooling" by dealers who agree not to engage in bidding wars has long been rumoured in the art world. The practice keeps works from being auctioned for their true value and allows dealers to resell the work at an exaggerated profit. One of the auction houses said it understood "other U.S. auctioneers and several prominent New York art dealers have been required to provide documents". *AP, New York*

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Tokyo plans spending cuts

By Gwen Robinson in Tokyo

The Japanese government yesterday adopted proposals for severe spending cuts in a move designed to reverse the country's deficit-ridden state finances.

The prime minister, Mr. Ryutaro Hashimoto, who led a special government cross-party panel briefed to identify the cuts, said the proposals were "a definitive collection of fiscal reconstruction measures" that would set a "strong and clear-cut direction" for the cabinet to carry through reforms in key fields.

Under the plan, general expenditures will be cut by

0.5 per cent, or about ¥200bn (\$1.7bn), in the state budget for the fiscal year beginning next April.

The biggest cuts will be made to defence spending, which will be held to zero or negative annual growth over three years from next April. The curtailment requires about ¥25,150bn, five-year defence programme, which began last April.

If carried through, it would add further doubt to Tokyo's deliberations over a US request that Japan join development of a costly space-based missile defence system.

Public works spending will

also be hit under the panel's proposal to slash outlays by 7 per cent next fiscal year for an overall cut of 15 per cent in the three years beginning next April.

The move will further affect leading general contractors, who have been suffering from falling orders, but will help Mr Hashimoto curtail the rampant spending so conspicuous in previous administrations.

Increased spending on social security, meanwhile, will be held to only ¥300bn, instead of the expected ¥800bn increase that was to come largely from medical system reform. The slow-down is likely to lead to

higher medical costs and possible cuts in other social welfare spending areas.

Agricultural outlays will also be held back. The panel proposes extending by two years a six-year plan to spend ¥6,100bn on helping Japanese farmers cope with liberalisation of farm product imports. The plan was to have been completed in the year beginning April 2000, but will now continue until 2002.

Agricultural spending is a particularly sensitive issue for the government, which derives much of its political support from the influential farm lobby.

Proposals to make deeper

Japan cuts back: the key measures

- 1. Slash fiscal 1998-2000 defence budget-up programme worth ¥25,150bn by ¥200bn
- 2. Cut official development assistance for fiscal 1998 by 10 per cent from previous year
- 3. Cut ¥800bn of increase in social security costs for fiscal 1998 to ¥300bn

- 4. Extend fiscal 1998-2000 package of measures supporting farmers, by ¥6,100bn to ¥12,200bn over three years, including public works in the package by ¥3,000bn
- 5. Reduce public works spending by 15 per cent to ¥1,500bn, 2000 and cut a 7 per cent overall decrease in fiscal 98 spending for public works

cuts were fiercely opposed by key figures in Mr Hashimoto's ruling Liberal Democratic party as well as its two parliamentary allies, the Socialists and the Independent New Party Sakigake.

Least sensitive domestically, but a big blow to Japan's internationalists, are targeted cuts in the country's overseas aid budget by ¥100bn in the next fiscal

year, at a time when the government is seeking to broaden Japan's international profile.

The panel, comprising cabinet ministers, as well as academics and other advisers, also recommended holding spending on programmes to help small businesses to the previous year's levels or lower in the three years from next April.

Sydney bed tax scaled back

By Nikl Tait in Sydney

Japanese-owned hotels in Australia, which have been opposing plans by the New South Wales state government to impose a 10 per cent "bed tax" in the run-up to the Sydney Olympics, were yesterday offered a reprieve.

Last month Japanese-owned hotels in Sydney wrote to the state government protesting at the tax and accused it of a "total breach of our confidence".

"They told the government that leading tour operators in Japan were warning that a significant number of tourists could decide against visiting Sydney or shorten their stay there if the tax went ahead."

The tax came as part of the state budget and allowed the government to forecast a small surplus for 1997-98. It would have imposed a 10 per cent levy on hotel beds in Sydney's city centre and on the North Shore.

The government argues that these properties stand to benefit substantially from pre-Olympics business and should be prepared to shoulder some of the costs. The Games are due to be held in Sydney in the year 2000.

Yesterday, Mr Michael Egan, the state treasurer, said the government would exempt existing forward bookings from bearing the tax, which is due to come into force in September. These are estimated at A\$99m (US\$75m), saving hoteliers or their customers about A\$10m. About 46 per cent of existing forward bookings are from Japanese tour groups.

Mr Egan said that the concession would cut the state government's revenue from the tax to around A\$36m in the next financial year. But the Australian Hotels Association (AHA), which represents the industry, said last night its members would reject Mr Egan's offer. "Our position is no compromise - we want the bed tax abolished," it said.

The AHA added that the proposal had been put forward by Mr Egan in a meeting with its representatives yesterday afternoon, but it was made clear that a compromise was not acceptable. The AHA now plans to release the findings of a review by accountants Ernst & Young of the impact of the tax on tourism and the local economy.

Some hotel-owners say they are aggrieved because they had co-operated over provision of hotel space during the Olympics. The city's limited resources are likely to be stretched, and there are plans to house visitors on cruise ships in Sydney Harbour.

Indian convertibility timetable urged

By Mark Nicholson in New Delhi

India should begin phased liberalisation of controls on overseas capital transactions with the goal of reaching full capital account convertibility within three years, a special central bank committee recommended yesterday.

But the panel - empowered by Mr P. Chidambaram, finance minister, in this year's budget to "lay out the road map" for convertibility - said further moves to strengthen the financial system, big additional cuts in the fiscal deficit and a lower inflation rate were "crucial" to meeting the target.

A firm commitment and a set schedule towards capital account

convertibility, as the Reserve Bank of India panel recommends, represents one of the most significant remaining steps in India's six-year reforms and is central to the country's full global economic integration. The International Monetary Fund has strongly urged India to begin such steps.

The Indian rupee was made freely tradable for physical trade transactions in 1994. But foreign investment transactions, both into and out of India, have been banned or tightly controlled for all but foreign direct and portfolio investors and "non-resident" Indians. Indian companies, notably, face tight limits and a tough approvals procedure for foreign borrowings or investments.

But the central bank panel said "the time is now appropriate" to begin moves towards removing controls on capital transactions.

It said India would benefit from capital convertibility through better access to capital at international rates, better diversification of risk, a spur to development of financial markets and a "disciplining influence" on macro-economic policies.

But it set a series of tough economic "signposts" India must meet along the way. The committee said India should cut its fiscal deficit from a budgeted 4.5 per cent of gross domestic product this year to 4 per cent in 1998-99 and 3.5 per cent the following year.

The panel, chaired by Mr S.S. Tar-

apore, the central bank governor, said inflation should be kept within a range of 3-5 per cent during the transition period and this rate should be "mandated" by parliament. This, it argued, would require giving the central bank greater autonomy to police the lower rate. Inflation now stands at 6 per cent.

It also said strengthening India's public sector dominated financial system was the "single most important precondition" to any move towards convertibility.

The panel advocated full deregulation of interest rates, a lowering of banks' cash ratio held at the central bank and "drastic measures" to reduce the high levels of non-performing loans of state-run banks.

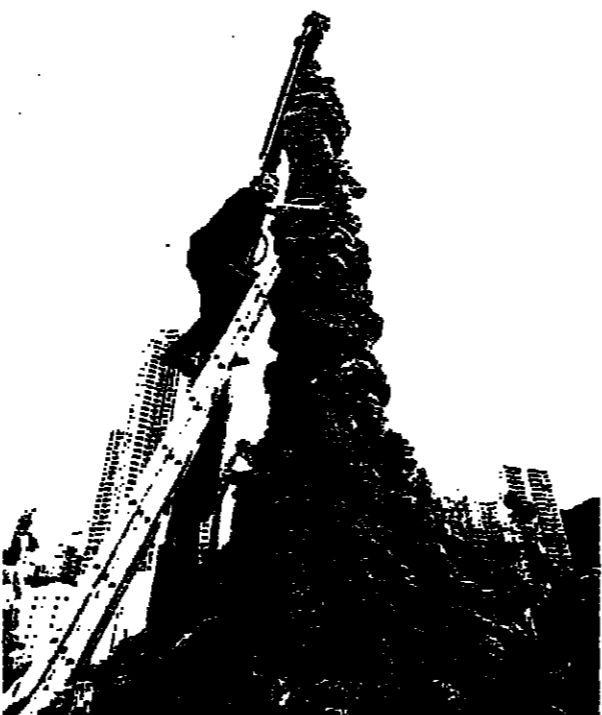
Tiananmen wound refuses to heal

The anniversary today of the Chinese crackdown in 1989 on student demonstrators in Beijing's central Tiananmen Square seems certain to pass without official comment, but the event casts a shadow over preparation for China's resumption of sovereignty over Hong Kong on July 1.

The stain left by the events of eight years ago is also disconcerting for China's leaders as they seek to consolidate their authority after the death in February of Deng Xiaoping, the country's patriarchal leader.

"There are many people now who don't agree with the student-led movement. They say the movement was wrong - it affected social stability - but people were killed and that was a tragedy," says Mr Wang Shan, a neo-conservative author with close Communist party ties. But the regime is constrained in dealing with the legacy of Tiananmen because of the presence in the leadership of Mr Li Peng, the prime minister, who gave orders for the crackdown on the authority of Mr Deng himself.

"It seems impossible there will be a vindication of the movement in the next two



'Pillar of shame' sculpture is erected in Hong Kong for mass rally today commemorating Tiananmen massacre

years," says Professor Xu Liangying of the Chinese Academy of Social Sciences. "The central government just dare not touch the issue. President Jiang Zemin cannot refute what his predecessor [Deng] has done."

Nevertheless, pressures continue to build behind the scenes for a reversal of the verdict on Tiananmen which was judged a counter-revolutionary crime for which many of those involved received long jail sentences.

Hopes flickered last week that the leadership might be edging towards a review when, in northern Jilin Province, four workers convicted in 1989 of organising a counter-revolutionary clique had their sentences quashed.

However, a lesser conviction of counter-revolutionary incitement was upheld, suggesting too much should not be read into the verdict.

For Hong Kong, contemplating the imminent end of British rule and closer proximity to mainland control under the "one country, two systems" formula, the legacy of Tiananmen lingers. An opinion poll by Hong Kong University published this week indicated 63 per cent of people believed Beijing had erred in suppressing the 1989 movement, and 75 per cent said Hong Kong people should push for democracy on the mainland.

Hong Kong will be the scene this week of demonstrations marking the massacre. These are an annual event drawing thousands to a candle-lit vigil. Many will no doubt wonder whether the new administration will permit such protests.

Chinese leaders, meanwhile, seek occasionally to address concerns about lack

of political freedoms, and implicit is the promise of political reform, although no timetable is laid down.

"According to the constitution, power in the country belongs to the people, and the people exercise state power through the National People's Congress (parliament) and local congresses at various levels," said Mr Qiao Shi, chairman of the NPC, in a recent newspaper interview.

"To ensure the people are the real masters of the country, that state power is really in their hands, we must strengthen these institutions and give them full play. At the same time, it is necessary to improve grassroots self-government so people can manage their affairs."

In spite of Mr Qiao's remarks, however, Beijing will continue to be prickly about criticism of lack of political freedoms, especially around the June 4 anniversary. The official China Daily yesterday warned the west, in a long article repudiating criticism of China's human rights record, not to focus on "single events or persons", a reference to the Tiananmen anniversary.

Tony Walker

Hong Kong clout adds to Hanoi's worries

Vietnam concerned at China's economic grip

By Jeremy Grant in Hanoi

Vietnam is worried Beijing may use Hong Kong's considerable economic clout as leverage against Hanoi should relations between the two communist neighbours again turn sour. Concern is centred on the hundreds of Hong Kong companies that spearheaded a drive by foreign investors into Vietnam in the early 1990s and have established a firm foothold. Some in the Vietnamese leadership are apparently

nervous that these companies have connections with mainland Chinese business interests. Strong trade ties between Vietnam and Hong Kong are also a worry.

"It's a concern that Hong Kong is in the hands of Beijing. China has additional influence to introduce pressure on us," said one influential party member.

Relations between the two have ranged from mutual suspicion to outright hostility, most recently in 1979 when they fought a border war. Centuries-old rivalries surfaced again in March when the presence of a Chinese oil rig in disputed waters erupted into a tense diplomatic stand-off.

Diplomats say that event has prompted close scrutiny of the implications for Vietnam of the Hong Kong hand-over.

Communist party sources said the party general secretary, Mr Do Muoi, plans a trip to Beijing as soon as possible for a first-hand view of China's stance towards Vietnam since the death of Deng Xiaoping, the paramount leader.

Vietnam worries over the huge amount of Chinese goods smuggled across the two countries' porous border.

Bilateral trade is estimated at about \$500m a year with cheap Chinese products undercutting their Vietnamese competitors, threatening Vietnam's fragile manufacturing base.

China is ranked 21st among foreign investors, with 43 projects valued at \$77m. Vietnam is wary of ethnic Chinese capital inflows and has encouraged investment from Taiwan and Singapore as a way of achieving balance.

Hong Kong is the second biggest foreign investor in Vietnam, with projects under way for New World Group, Links Industry, rice producer Golden Resources, Bank of East Asia and a hotel investment held indirectly by Mr Li Ka-shing, the Hong Kong billionaire with strong contacts in Beijing.

However, some play down Vietnamese fears of mainland Chinese influence through such companies: "I think a lot of people are concerned about that. But perhaps some of those fears are exaggerated," said Mr Ian Lewis, a partner in Ho Chi Minh City with Johnson Stokes & Master, a Hong Kong-based law firm.

Nevertheless, there are recent signs that China has been courting Hong Kong businesses.

Beijing's embassy in Hanoi has approached Hong Kong businessmen with a proposal to set up a Hong Kong chamber of commerce under its auspices. And earlier this week China's consul general in Ho Chi Minh City made an unprecedented appearance as guest of honour at a business luncheon for Hong Kong businessmen in the city's New World Hotel.

Indonesian party MPs may quit

By Manuela Saragosa in Jakarta

Officials from one of Indonesia's minority parties yesterday said its members of parliament may withdraw from the assembly after their party's disastrous showing in last week's general election.

Preliminary results show the Christian-based Indonesian Democratic party (PDI) secured only just over 3 per cent of the nationwide vote. Its total number of seats fell from 56 to 10, below minimum levels for representation on key parliamentary commissions.

The PDI's popularity collapsed after the authorities engineered the removal of its popular leader, Ms Megawati Sukarnoputri, and replaced her with a government-backed candidate last year. In the aftermath, Ms Megawati told her supporters not to vote for the PDI.

Political observers warned that a withdrawal of the PDI from parliament would disenfranchise Indonesia's non-Muslim opposition which includes voters on the island of Bali, parts of eastern Indonesia, regions of Sumatra and Kalimantan.

That would be a blow to the credibility of a broadly three-party political system, created by Mr Suharto in the 1970s. The Muslim-orientated United Development party is the other minority party besides the ruling Golkar.

ASIA-PACIFIC NEWS DIGEST

LDP defence team to Beijing

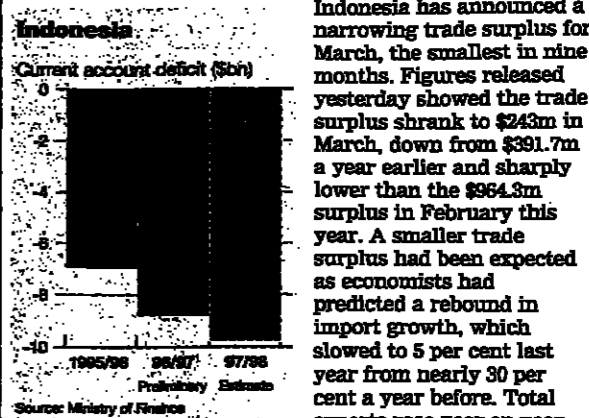
Japan's ruling Liberal Democratic party is to send a delegation to Beijing at the end of the week to reassure the Chinese government over Japan's defence and security intentions.

A group of LDP MPs responsible for foreign policy, security and defence, will spend from Friday to Sunday in Beijing, meeting Mr Qian Qichen, foreign minister and Mr Chi Haotian, defence minister. They plan to brief the Chinese authorities on a potentially controversial Japanese government review of its 1978 guidelines on defence co-operation with the US. The review, for completion this autumn, may expand assistance offered by the Japanese military to US forces in the case of a conflict in east Asia. Details are still under discussion, but it might, for example, make it possible for the first time for the US air force to use Japanese civilian airfields.

Another issue of concern to China is potential Japanese participation in a sophisticated missile defence system being developed by the US. The Japanese delegates will be keen to impress on their hosts that both the review and possible participation in the missile defence system are for purely defensive purposes and not intended to isolate China.

William Dawkins, Tokyo

Indonesian trade surplus down



Indonesia has announced a narrowing trade surplus for March, the smallest in nine months. Figures released yesterday showed the trade surplus shrank to \$243.7m in March, down from \$391.7m a year earlier and sharply lower than the \$964.3m surplus in February this year. A smaller trade surplus had been expected as economists had predicted a rebound in import growth, which slowed to 5 per cent last year from nearly 30 per cent a year before. Total exports rose year-on-year by 2.8 per cent to \$4,065m in March but were outpaced by imports, which grew by 7.3 per cent to \$3,820m. The slowdown was brought about largely by lower world oil prices; oil and gas exports fell to \$960m from \$977m a year earlier and just over \$1bn in February.

Economists said the government is still expected to keep its current account deficit at between 4 per cent and 4.5 per cent of gross domestic product this year. It has predicted a current account deficit of 4.2 per cent of GDP for fiscal 1997-98.

Manuela Saragosa, Jakarta

Mixed HK land auction

Hong Kong's last government land auction before the return to Chinese sovereignty provided mixed signals but left real estate analysts confident about prospects for the property market. The first site to be sold, a residential plot on Hong Kong island, saw slow bidding before being sold to Paliburg Holdings for HK\$5.5bn (US\$710m). This fell short of predictions of HK\$6bn.

Demand was more buoyant for a residential site on the Kowloon peninsula. Cheung Kong Holdings, the flagship company of Mr Li Ka-shing, the territory's most prominent tycoon, paid HK\$6.06bn, far higher than expectations of between HK\$4.5bn to HK\$5.5bn. Sector analysts said the relatively low price for the Hong Kong site partly reflected its location in Stanley, on the south side of the island.

John Ridding, Hong Kong

ADB in \$1bn bond offering

The Asian Development Bank yesterday returned to the global capital markets for the first time since 1995 with a \$1bn bond offering. ADB officials said an unexpected loan repayment by Indonesia last year allowed the bank to forgo its annual global dollar bond issue in 1996.

In 1997, however, the bank planned to raise \$2.6bn with the possibility of a debut offering in D-Marks later this year to help bridge the remaining \$1.6bn gap. Mr Peter Balon, ADB deputy treasurer, said the bank was also considering debut issues in the Philippines, Thailand and Indonesia to help kick-start their domestic capital markets. The ADB has already issued Taiwan dollar and Korean won bonds.

Edward Luce, London

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Proposal will test willingness of Blair to oppose further EU social regulation

Brussels push for works councils

By Robert Taylor,
Employment Editor

The European Commission will propose today that all companies in the European Union should be required to set up information and consultation committees for their employees.

The proposal, contained in a consultation document issued by Mr Pádraig Flynn, the EU's social affairs commissioner, could be introduced by a qualified majority vote through the EU's social chapter if trade unions and employers failed to reach agreement on it.

The proposal should provide an indication of the willingness of Mr Tony Blair, the UK prime minister, to oppose further EU social regulation, which is rejected by British employers as a burden on their businesses. Mr Blair has promised to sign the social chapter but has said he will reject any new EU laws that might impede competitiveness.

Mr Blair told European heads of government less than two weeks ago that he wanted to "campaign to

The government yesterday signed the Council of Europe's charter of local self-government, which the previous Conservative administration refused to adopt, Alan Pike writes. Ms Hilary Armstrong, the local government minister, surprised a Local Government Association conference in London by announcing that the charter was being signed in Strasbourg to "demonstrate central government's recognition of the value of local government."

extend flexible labour markets to the rest of Europe."

Mr Flynn wants a response to his consultation document within six weeks. If the trade unions and employers cannot reach agreement, he will present a legislative measure to the EU heads of government for their support.

Mr Flynn will argue today that companies in member states should create works councils or similar consultative bodies for their employees to improve their competitiveness

The charter, which 23 Council of Europe member states have ratified, sets standards for protecting municipal authorities' rights.

These include declarations that they should manage a substantial share of public affairs, and have adequate financial resources of their own. Ms Armstrong said the government's decision to sign the charter was a "pledge of our commitment to forge a new and constructive partnership with local government at home."

most EU countries, because such committees or works councils already exist under national law. But for the UK it would represent a significant shift to legal regulation in an area formerly ruled by voluntary agreements.

The UK Trades Union Congress said last night: "We welcome the sensible and modest proposals to improve the flow of information in companies."

These basic minimum standards are already practised by successful companies everywhere. Information and consultation committees are the foundations for flexibility with fairness which is the key to company success."

But Mr John Giddland, human resources director at the Confederation of British Industry, the biggest UK employers' lobby, questioned whether the European Commission had the legal powers to introduce such a measure, which should be left for each member state to decide. He also said there is "not widespread enthusiasm" for further social legislation in the EU.

Speaking during and after a conference in Brussels about "convergent technologies", Mr Van Miert suggested there might be a problem with the same operators dominating conventional broadcasting, satellite broadcasting and the emerging digital sector.

"There is a problem because Carlton is applying for one of these licences," Mr Van Miert said.

The commissioner added: "Our opinion has been asked about it and we have voiced our concerns. The ITC is involved but no decision has been taken."

Mr Van Miert also said yesterday that the decision on digital terrestrial in the UK had been delayed "because of competition concerns".

The ITC confirmed yesterday that it routinely contacts other regulatory bodies as part of its decision-making process, including competition authorities such as the Office of Fair Trading and Brussels.

Under broadcasting legislation, the ITC has a duty to ensure "fair and effective competition" in the provision of broadcasting services.

Competitive issues have been simmering away since applications were made for commercial digital terrestrial licences, which should enable between 30 and 50 new services to be received in the UK. The main advantage of digital terrestrial is that the extra channels can be received on ordinary aerials and without the need for satellite dishes or cable connections.

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Digital TV bids cause concern

By Neil Buckley in Brussels
and Raymond Snoddy
in London

Mr Karel Van Miert, the European competition commissioner, said yesterday he had concerns about the British Digital Broadcasting bid for digital terrestrial licences in the UK.

Mr Van Miert said he had been asked for his views on the issue by the UK Independent Television Commission, which will decide later this month whether BDB, or its rival Digital Television Network, wins the licences.

"There is a problem so far as the pay-TV business is concerned because there could be an enhancement of an already dominant position," Mr Van Miert said.

BDB brings together British Sky Broadcasting, the satellite television venture, Carlton Communications and Granada. DTV is controlled by NTL, the cable and broadcasting services company.

Speaking during and after a conference in Brussels about "convergent technologies", Mr Van Miert suggested there might be a problem with the same operators dominating conventional broadcasting, satellite broadcasting and the emerging digital sector.

"There is a problem because Carlton is applying for one of these licences," Mr Van Miert said.

The commissioner added: "Our opinion has been asked about it and we have voiced our concerns. The ITC is involved but no decision has been taken."

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UK NEWS DIGEST

Lloyd's offers delay to Names

Lloyd's of London said yesterday it would allow Names more time to meet tough new capital requirements following angry protests at its original proposals. But it has tempered concessions with demands that the Names - individuals whose assets have traditionally backed underwriting at the insurance market - provide funds at Lloyd's totalling 40 per cent of the business they back. Lloyd's proposed plans last month to strengthen the financial security underpinning insurance policies. But they were criticised by influential groups of Names, who argued that the rapid pace of reform could force many members out of the market.

Under a system to be introduced over several years, beginning next year, investors will have to show evidence of assets representing at least 50 per cent of the premiums they can support. Those assets will comprise funds held in trust at Lloyd's and other personal wealth.

Lloyd's has extended from two to three years the period during which the funds at Lloyd's requirements will be raised from 20-30 per cent for most Names. It will also allow Names five years to show that they have £350,000 in personal wealth.

The Association of Lloyd's Members welcomed the concessions but expressed concern at the increase to 40 per cent in funds at Lloyd's. *Christopher Adams*

MERCHANT SHIPPING

Minister pledges support

Mr Gavin Strang, transport minister, yesterday promised to reverse the decline of Britain's merchant navy and to safeguard the country's maritime future. In the first indication of the Labour government's attitude to the shipping industry, Mr Strang said it would not allow unfair competition to continue to erode the fleet.

A frequent complaint of the industry in recent years has been that competitors based in other countries enjoy tax breaks and other benefits not available to the UK fleet. Mr Strang told the International Association of Ports & Harbours conference in London that the role of government should be "to create the dynamic and supportive environment in which trade can prosper". The Chamber of Shipping, representing UK shipowners, said: "These represent the most important pledges by a cabinet minister on shipping for many years." *Charles Batchelor*

FINANCIAL PRODUCTS

Group ordered to retest salesforce

Prudential, the UK's biggest insurance and pensions group, has been ordered to re-test its entire direct salesforce after criticism from the chief city watchdog over its training and compliance procedures. Each of the 5,600 members of the salesforce - the biggest in the industry - will be tested over two or three days on key aspects of their financial training. The Securities and Investments Board has ordered the move because of concerns about the depth of the salesforce's training in certain product areas. The criticism comes in a draft SIB report following a routine inspection visit to the Prudential earlier this year.

SIB also accuses the Prudential of wrongly advising some of its non-tax paying clients to buy one of its products when other products would have been more suitable. SIB also claims the company's salesmen advised some clients to buy a second personal pension, incurring new charges, rather than topping up an existing one.

But Mr Jim Sutcliffe, chief executive of Prudential's retail operation, insisted the concerns were being addressed urgently. "There have been some mistakes and we are treating them very seriously," he said. Accountants KPMG have been brought in to assist the company, he added. *Christopher Brown-Humes*

HOUSING MARKET

Property agents warned on deceit

Estate agents will be banned if they engage in "improper, unfair, deceitful or oppressive practices", the Office of Fair Trading warned yesterday. It was responding to reports that some agents have taken advantage of the rising housing market by accepting money for not passing all bids on to sellers. Mr John Bridgeman, director-general of fair trading, said yesterday: "This amounts to making a secret profit and is particularly objectionable. I would remind them that I have powers to ban them from practising as an agent if they breach the Estate Agents Act or to remove their consumer credit licences."

A shortage of properties has caused prices to rise sharply in central London and part of south-east England. The Royal Institution of Chartered Surveyors said: "The practices identified by Mr Bridgeman are indefensible, although only a tiny minority of agents are likely to be involved." *Andrew Taylor*

CONSTRUCTION INDUSTRY

Union warning on strike threat

A trade union leader said yesterday that the building industry might face a wave of unofficial disputes after the collapse of pay talks. They broke down after unions rejected a three-year pay offer to increase hourly craft rates from the current £4.58 (£7.46) to £5.05 by 1999. Mr Allan Black, national officer for the GMB general union, said the industry was "sleepwalking towards industrial action". He described the pay offer as "unrealistic".

The Building Employers' Federation said the offer was generous. Mr Malcolm Fordy, chairman of the building employers' side, said: "I must make clear that no further concessions will be made." *Andrew Bolger*

MANCHESTER AIRPORT

'Animal' evicted from runway site

A 17-year-old protester known as "Animal" was evicted yesterday from the site of the second runway at Manchester airport, after a painstaking operation by bailiffs to free her arm from an oil drum filled with concrete. The bailiffs (court enforcement officers) were clearing the last of the six camps built by protesters trying to block the building of the £172m (£290m) runway at Manchester, the busiest British airport outside London.

N Ireland splinter gangs are outlawed

By John Murray Brown
in Dublin

Orders banning two breakaway terrorist groups were issued yesterday by Ms Mo Mowlam, chief minister for Northern Ireland in the UK government. One organisation is the fiercely anti-republican Loyalist Volunteer Force, which opposes the continuation of the 24 year ceasefire by the Combined Loyalist Military Command. The other is the Continuity Army Council, a splinter from the Irish Republican Army which opposes the peace strategy of Sinn Féin.

The orders were made after Ms Mowlam had spoken outside in Belfast of multi-party talks about the future of Northern Ireland. She said in the talks that the dispute about "decommissioning" terrorist weapons must be settled "within weeks", before negotiation can start on substantive constitutional issues.

She said she understood the difficulties for some parties. But further delay could discredit the entire peace process and forfeit "the best opportunity for a generation of securing a widely-acceptable political accommodation". She also repeated that the talks would proceed without Sinn Féin if the IRA, its military wing, failed to reinstate a ceasefire "demonstrated in words and deeds".

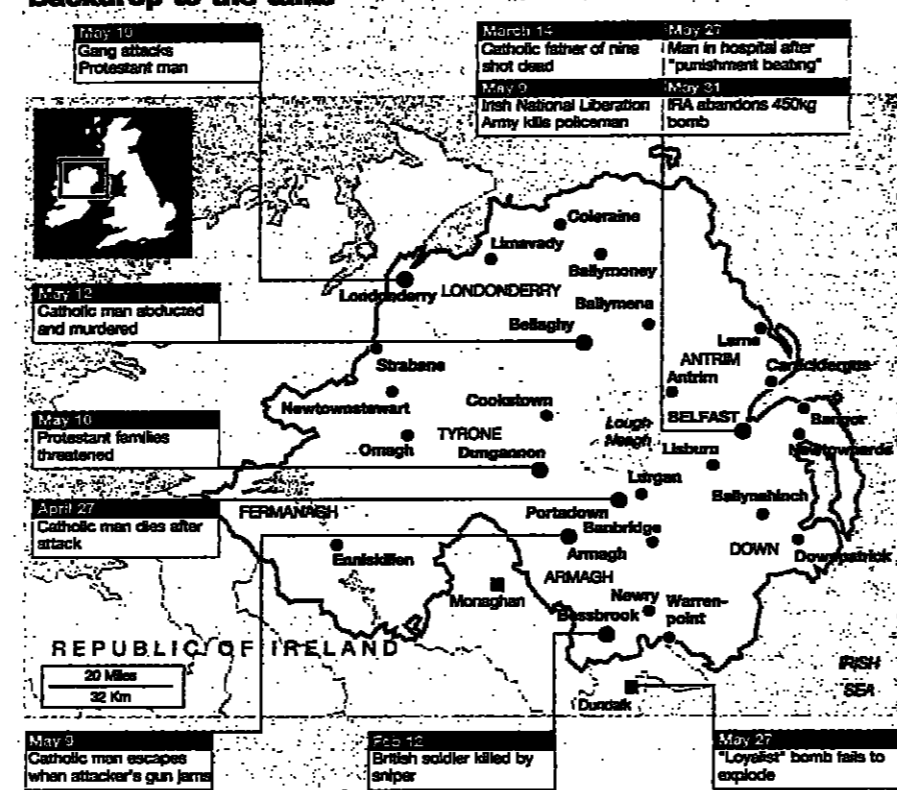
Information Management Resources, which is based in Clearwater, Florida, is to open a £2.8m (\$4.6m) software development centre in Belfast, the capital of Northern Ireland. It will be the company's first development site in Europe. Mr Satish Sanan, IMR president said: "The ready availability of skilled information technology professionals and graduates in Northern Ireland is an ideal fit with our strategy to source globally the best IT talent available."

Mr Adam Ingram, a Northern Ireland minister in the UK government, said the news was a boost to the region as a centre for excellence for software groups.

Questioned about the continued participation of the fringe "loyalist" parties, Ms Mowlam said the UK government "would have no hesitation" in ejecting them from the talks if the Combined Loyalist Military Command broke its ceasefire. The parties are the Progressive Unionist and Irish Democratic parties, the political wings respectively of the outlawed Ulster Volunteer Force and Ulster Defence Association.

The decision to release her remarks at the plenary session of the talks - hitherto held in closed session - underlines the government's concern that the stalemate could exacerbate tensions

Backdrop to the talks



surrounding contentious summer parades, which reach a peak on July 6.

Ms Mowlam was given a cool reception to her remarks on police reform during a separate address to the annual conference of the Police Federation of the Royal Ulster Constabulary, the Northern Ireland police force.

Seeking to reassure rank and file officers, Ms Mowlam insisted she was not advocating change for the sake of change.

"The independent investigation of allegations against police officers is your guarantee that the good work you do cannot be undermined by ill-founded or mali-

cious criticism," she said.

But Mr Les Rodgers, chairman of the 11,500 member federation, told Ms Mowlam she was hardly warm in her new seat and she was announcing reform of the force.

"If there is something fundamentally wrong in Northern Ireland then it should be obvious that the resolution of the problem lies in the hands of the community and not with the RUC," he said.

The conference comes just two days after an off duty police officer was murdered by "loyalists", apparently for his role in the policing of a recent Protestant march.

Relatives were yesterday burying constable Greg Tay-

lor, who was kicked to death in Ballymoney on Saturday.

Ms Roisin McAliskey was yesterday granted bail by a judge in London to enable her to be transferred to a specialist mother and baby unit. Ms McAliskey, 25, gave birth to a daughter a week ago after being held in prison in the capital.

Ms McAliskey is the daughter of Mrs Bernadette McAliskey who, as Bernadette Devlin, was active in Northern Ireland nationalist circles in the 1970s.

Regulator slams 'huge' water dividend rises

By Leyla Bouton,
Environment Correspondent

Mr Ian Byatt, the water industry regulator, has attacked big increases in dividend payments to shareholders by water companies as financially "unsustainable" and politically dangerous.

"I'm very puzzled as to why they feel it necessary to have this huge dividend growth because it is not obvious that investors in water need to get a better return [than other sectors]," he said in an interview.

Five companies last week launched the sector's results season by reporting double-digit dividend increases, which mostly outstripped rises in underlying pre-tax profits.

Anglian, for example, reported dividends up 15 per

cent compared with a rise in pre-tax profits of 7.7 per cent after exceptional items. Yorkshire announced a dividend up 19.5 per cent compared with a 3.1 per cent increase in adjusted profits.

Mr Byatt's comments are an attempt to discourage expectations of continuing increases, such as those promised by United Utilities, the water and power group. Last week it repeated its intention to raise dividends in real terms by 11 per cent a year to 2000.

South West Water has promised to maintain dividend growth before inflation at 8 per cent. "There is no way they are going to get growth in profits at that level," Mr Byatt said.

He warned companies they were sending the wrong signals to the public, at a time when the govern-

ment was preparing a wind-fall tax on privatised utility profits. "The more you demonstrate you've done rightfully well the more you encourage people to think that a utility tax is a good idea," he said.

The clear signal they're giving is they don't need all the money."

The next stage, he added, was "to get in and have some rules" requiring companies to explain their dividend policy. Their failures to tackle leakage, for instance, had led to the setting of annual targets for leakage reduction.

Politicians might otherwise adopt a US-style model of regulation, which sets companies a fixed rate of return. This would be "a tragedy" because it would destroy incentives.

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Lottery shareholders alarmed by profit plan

By Charles Gresser and
Christopher Price

Three of the main shareholders in Camelot, the consortium which operates the National Lottery, yesterday expressed grave concern at the prospect of running the lottery if it became non-profit making.

One also warned that the organisation risked losing its management team if the dispute with the government over pay continued.

On Monday, Sir George Russell, Camelot's chairman, offered to embark immediately, "in partnership with the government", on talks to create a new shape for the lottery, which the government wants run on a "not-for-profit" basis.

But Sir Ernest Harrison, chairman of Rascal, which owns 22.5 per cent of Came-

lot, said yesterday: "We would not want to be part of a non-profit making organisation running the lottery."

He added: "We run the most efficient lottery in the world. This row over salaries is embarrassing, of course, but if you want the best then you need the most efficient operator."

Mr Jeremy Marshall, chief executive of De La Rue, which also owns 22.5 per cent of Camelot, said: "I don't think our shareholders would be happy to see us devoting management time and investment in a business for no return."

GTEch, Camelot's US shareholder, said: "We are not going to provide our goods and services without a profit element. We are a for-profit company, but certain concessions could be considered."

Of the other two shareholders, computer group ICL said it was awaiting the government's proposals, while Cadbury Schweppes declined to comment. ICL is an offshoot of Fujitsu.

Mr David Rigg, Camelot's director of communications, said yesterday: "We would consider a long-term structural arrangement to include a not-for-profit concept, but what does that mean?"

De La Rue also said it was concerned that the pay row which has engulfed Camelot executives could mean Camelot losing its top executives.

Last week, Camelot announced that total payments to 10 executive and non-executive directors for the year to March had risen by 40 per cent to £2.3m.

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Rascal results, Page 20

Government attacked over increase in special advisers

By James Blitz
and George Parker

Senior Conservative politicians have attacked the Labour government's decision to employ at least 52 people as publicly-paid special advisers to ministers, claiming it represents a move towards "big government" at the public's expense.

Mr John Major, the former Conservative premier who is now leader of the opposition, was said to be angered that Mr Tony Blair, the Labour prime minister, had made at least a dozen more outside political appointments than was the case under the Conservative administration.

Salaries for the Blair government's advisers, who are paid out of public

The Labour administration is employing at least 53, a dozen more than were hired by the former Conservative regime

money, are also a source of controversy. Mr Blair's aides are insisting that the total cost of employing all the advisers will not go far above the £1.7m (£2.8m) incurred by the previous government - but some could be earning well above £70,000 a year.

Mr Major's frontbench team is expected to ask an avalanche of questions in parliament over the next few days over why Mr Blair has exceeded the number of special adviser appointments made under the Conservatives, which rarely

went above 40. Aides to Mr Blair explained that move reflected the more centralised style of government Mr Blair was trying to adopt.

"We made clear that we wanted to run things more from the centre," an official said. "That requires political direction and it requires people who made an input into the Labour election manifesto."

The special adviser dates back to the Labour governments led in the 1980s and 1990s by Harold Wilson, who felt

ministers needed to have ready advice from acolytes.

Technically classified as "temporary civil servants", they are paid from public funds and tend to work in the office next to their masters. A typical special adviser will do everything from writing political speeches to giving confidential briefings to the press or carrying ministerial documents around the Houses of Parliament.

Mrs Cherie Blair's appointments are also of interest. Her predecessor, Mrs Norma Major, had an assistant paid from public funds on a part-time basis.

But Mrs Blair now has two assistants - Ms Fiona Millar (partner of Mr Blair's press secretary) and Ms Roz Preston (a former Labour party worker) - both of whom are also classi-

fied as "part-time". Aides explained their roles. For example, Mr Blair will be in Sweden later this week for a meeting of socialist leaders. So Mrs Blair is

s offers
to Names

The theme of today's column is revision. It is in the nature of the job that criticism in daily newspapers records reactions immediately after events. In many instances - recitals and concerts are obvious examples - there is little possibility of revising or modifying that initial reaction, but very often in the case of television we could, if only we would, return to a subject. In the case of new series you do sometimes find a critic taking a second bite at the cherry, though rarely. Yet a critic, like anyone else, may well change his mind.

Mine has changed regarding the BBC1 comedy *Keeping Mum* which was defended here after its first episode against those who took high minded exception to dementia being used for comedy. I suggested that anyone who had had to deal with a close relative suffering from Alzheimer's disease knew that, although deeply painful, it was a phenomenon which also produced highly comical moments. That remains true, and writer Geoffrey Atherton has every right to exploit the subject. Moreover, Stephanie Cole's performance as the afflicted Peggy is superb, as you would expect from this actress. But the tone of the series is unfortunate. Occasionally you can sense sympathy, but there is too great a readiness to milk the situation for every possible laugh, and too often

what you seem to hear is sniggering. Another newish comedy, *See You Friday* (ITV), looked at first like a welcome change in that its attitude towards heterosexual relationships was approving and even enthusiastic. However, as episodes have gone by it has become apparent that this is an over-studious British attempt to emulate those recent American comedies which so famously convey "the feel-good factor". In itself that is no bad thing, but - at present, anyway - it is proving too lovey-dovey, too sweet, too cloying, as the couple in separate cities strive to keep their weekend dates. Still, it is through-composed with events moving on from week to week (which is not true of every sitcom), so matters may improve.

Still with comedy, back in the days when *Yes Prime Minister* was having its first run (1986 to '88) too little admiration was expressed here. BBC2's Wednesday evening repeats are proving that this is as much a classic series as *Dad's Army*, and one which will surely be just as successful in amusing successive generations of

viewers. Admittedly the weekly joke of having the top civil servant, Sir Humphrey, lapse into multisyllabic obfuscation is tedious, but that aside it stands up wonderfully well. Its great strength is in the convincing layer of authenticity lying just below the surface of the comedy, and that comes, presumably, from thorough research.

Let's hope that in a few weeks time it will seem necessary to revise first impressions of another, though different sort of comedy series. "To see Harry Hill", we were promised, "is to experience one of the purest and most sophisticated forms of entertainment currently available in this country". If so, despair is in order for British comedy. You can always tell when producers are nervous about a new comedy series they overdo the laughter. Sure enough, they have smothered *Harry Hill* in the stuff. "Make haste for the parade is in but half an hour", said Hill and the soundtrack exploded with mirth. "A dolphin will jump out of the water for a piece of fish, imagine what

it'd do for chips", said Hill and the producers gave us prolonged hysteria. It can only improve.

One other comedy, of yet another sort, deserves more celebration than it has received here so far. Few would have believed that a rip-off from Radio 4's *News Quiz* could ever be a big success on television, yet *Talk Back's Have I Got News For You* has become, for many, one of the few "must see" programmes of the week. The most important element in this is Paul Merton's ad-libbing. When he is on form, as he was on Friday, his lugubriously delivered flights of fantasy combine elements of Spike Milligan and Les Dawson. His yarn about the polar bear dropping through a greenhouse roof was wholly absurd yet hilarious. Furthermore, he makes the others funny.

Attitudes here towards Channel 5 need revising: so far the blind eye has predominated, but in truth the new network appears to be a disaster area. Saturday's *Rugby Union* showing the England/Argentina match, designed with the Poland/England football match to help the new network to its

biggest ever audience share, was an object lesson in how not to do sport. What we want is all the action with good camerawork plus well balanced sound, and a minimum of gormfimey experts in the studio telling us what to think. What we got was poor camerawork (Argentinian perhaps, but it was Channel 5 that brought it to us), disgraceful sound (apology captions appeared repeatedly) and much irritating studio pontification. Instead of just protecting the big occasions, perhaps the government could pass a law giving all sport back to the BBC whose technical work and commentaries now look like models for all the newcomers.

Usually I am deeply suspicious of anyone who comes on screen to tell me how to look at the following movie, but Alex Cox's introductory notes for the BBC2 cinema slot, *Mo'Nstrous*, were invariably exceptions. Yet I never found the space to celebrate his idiosyncratic and often fascinating introductions. Now, for the new *Mo'Nstrous* series beginning on Sunday, Cox has disappeared (jumped or

pushed?) and his place is to be taken by Mark Cousins. Cox's flair for picking the odd, telling moment came out again in *Close Up* on Saturday when he nominated as his favourite film clip the moment in *Kung Kong* when the dinosaur pauses to scratch his ear. On this inconsequential detail Cox constructed a lightning but wholly persuasive critique of modern Hollywood and its lack of individual vision. BBC2 should find a way to bring us more of Cox, not less.

Which is an ideal cue to salute and regret the departure of Michael Grade, a man of individual vision, from Channel 4. His departure was marked by a workmanlike profile in BBC2's peculiar arts or culture series, *The Works*. If any of the spreadsheet experts now dominating British commercial television have anything like Grade's vision they are keeping it well hidden. Grade combined a happy vulgarity with a deep instinct to defend real freedom of expression, an invaluable combination which television can ill afford to lose. He was frequently in the limelight, but praised too little for his courageous defence of writers and producers whose work was under threat of suppression. In this instance revisionism comes a little late, but better late...

Ballet/Clement Crisp

The true nature of dance celebrated

Copenhagen was looking at its most entrancing at the weekend. It is an irresistible city, blessed with a ballet company no less irresistible. The season has just ended with a new three-act ballet, Kim Brandstrup's *Cupid and Psyche*, and a final gala tribute to commemorate the artistry and influence of that great dancer, Henning Kronstam.

Though the Danish-born Brandstrup's creative career has been for the most part spent in Britain - he is a product of the London Contemporary Dance School, and his Arc Dance Company has laboured splendidly here for a decade - his sensibilities remain Danish. His dance pieces are notable for their skill in creating an atmosphere, a world. In them we find a poetic sense of location, and a strength of vision whose power is held somewhat in reserve. He has a taste for literary subjects as thematic material to be transmuted (not merely adapted) by movement which is unusual in today's dance theatre. *Hamlet*, *The Dying Swan*, *Othello* have been given alert choreographic expression. Subjects as different as Mexican celebrations for All Souls Day (*Saints and Shadows*) and the Hollywood film noir (*Crime Fictions*) have inspired memorably good dance. And, dance in Britain being what it shamefully is, Brandstrup has worked on a minuscule budget; and poverty being the blessed state it is, his works have made their impact through imaginative resource rather than cluttering decor. (An ounce of visual wit being worth several thousand tons of the bombast that brought us the Royal Ballet's *Sleeping Beauty* or *Dor* *Quixote*).

With his first three-act work for The Royal Danish Ballet, which I saw at the weekend, Brandstrup has paid a passing tribute to August Bournonville by using the theme of *Cupid and Psyche* that was once Bournonville's too. For Brandstrup a challenge lies in updating the legend, through the daily contrast we may still see in Rome between memories and remains of the antique world that surround modern living. The Brothers Quay have designed a setting of classic pillars, colonnades, in which the tale is told as if in a Fellini film of the 1960s - a Vespa patters over the stage; the clothes

(Kandis Cook) are hideously of their period.

Brandstrup's three acts show us Psyche as victim of Venus' jealousy, and the unexpected twist of Cupid falling in love with her. Then, in the second and most successful act, Psyche is loved by Cupid, but knows him only by night - she may not see his face. Curiosity of course kills that particular puss, and it is only when Psyche agrees to be blindfolded that Cupid's love is restored to her in Act 3. The narrative is, as you may judge, resonant with symbols. Brandstrup, who is a romantic - his *Orfeo* has a happy ending - maintains a slightly ambiguous view of the characters, and this gives an odd savour to the action, where motives are not entirely clear. (And how life-like that makes the ballet seem!)

The choreography is serious, perceptive. The general dances and scene-setting in Act 1 are effective; the second act is emotionally taut, beautifully conceived; the third act - into which Brandstrup sets three dull divertissements featuring Orpheus, *Lohengrin*, *Bluebeard* - would benefit from editing to maintain the tension of the previous act. But the piece is a success, and is in everything helped by an admirable score from Kim Helweg, a musician working in the Royal Theatre. Atmospheric, dramatic, this is also *musique-dansante*, and a very considerable achievement. The performances of Heidi Rym and Martin James as Psyche and Cupid, and of the entire cast, were vivid, expressive.

In celebrating the life and work of Henning Kronstam (who died in 1965, aged 61) the artists of the Royal Danish Ballet were paying tribute to a great dancer who was to become director of the company from 1978 to 1985, and then a coach and teacher. Kronstam had many gifts. He possessed physical beauty, a lustrous technique, unfailing dramatic skill. In every role - and I count myself fortunate to have seen so much of his work - he was transformed. The Bournonville heroes were his by right, of course - his James in *Sylphide* so haunted, impassioned - but he dominated everything he danced by selfless artistry. His Romeo for



Lis Jeppeson: the most natural and poetic of sylphs

Frederick Ashton, his Jean in *Miss Julie*, and his Apollo, were performances that inspired audiences as they did other dancers by clarity of means as by intense feeling.

Thus Sunday night's tribute, with many of his roles revived, from the Drummer in *Graduation Ball* (danced with tremendous élan by Johan Kobborg) to lengthy extracts from *Napoli*, *La Sylphide*, *Giselle*. Lis Jeppeson was again the

truest, loveliest of sylphs (every delicate pose and feeling made natural, right, poetic); and in the Quaker dance from the *Whims of Cupid* (which is 210 years old) Anne-Marie Vessel and Flemming Ryberg were sublimely glum, faces and spirits down in their sprightly boots.

It was heart-rending to watch film of Kronstam rehearsing Lloyd Riggins as Albrecht - everything

of the role still there in Kronstam's gestures and expression - then heart-lifting to watch the company bubble through the last scene of *Napoli*. All the artists of the company were on stage, with the tarantella bursting with dancers sharing roles, their evident joy - which Bournonville declared was the true nature of dancing - making the best of tributes to Kronstam, who gave such joy to the world.

Opera/Andrew Clark

Stars come out for 'Boccanegra'

Defenders of Covent Garden's role as a purveyor of international opera will have felt vindicated by the performance of *Simon Boccanegra* which opened the Royal Opera's 1997 Verdi festival at the weekend: it matched beautiful voices to beautiful music. There was a star conductor, chorus and orchestra were well drilled and the cast seemed aware of each other. It was not an evening for those who like to have their grey cells stimulated, as Verdi surely wanted, and there was no evidence of the emotional heat on which Verdian drama depends. But by its own standards, this was international opera of a very superior quality.

To secure such musical exactness from a large ensemble is in itself an achievement - but what else does one expect from Sir Georg Solti? Returning to a production he conducted at its premiere in 1951, Solti applies the same criteria that have served him well throughout his life: whip the music into shape and maintain that shape strictly. This pays dividends in the shimmering strings of the Act 1 prelude, in Verdi's spry accompanying figures and the staccato flourishes of the big confrontations, on which Solti pounces like a tiger. And I've never heard the Recognition Scene driven to such an exultant climax.

Such all-purpose brilliance is nevertheless at odds with an opera whose character depends on subtle shades and flexible contours. There was not a shred of rubato, no sense of the inhalation and

expiratory of breath, nothing Italianate about the way the melodies were developed. Solti's Verdi always lacked humanity, and age hasn't changed his ways. The polish of this and other recent revivals is quite remarkable when you take into account the company's offstage turmoil: Terry

Edwards's chorus is in stupendous form, and Eltjah Moshinsky provides another of his serviceable stagings - an idea-free *Boccanegra*, rather than the intimate drama of moral and emotional complexity which Verdi's Genoese opera aspires to be. Within those limitations, Michael Yeargan's set - a diagonal line of pillars - and Peter J. Hall's costumes are more than acceptable.

All bar one of the principals had sung their roles on previous occasions at Covent Garden. The exception was Marcello Giordani's Gabriele Adorno. He took some time to warm up, and his acting is no more intelligent than most Italian tenors, but he sings with unforced ardour, has a sense of Verdian line and looks a credible nobleman. Despite signs of nerves, it would be difficult to find fault with Dame Kiri Te Kanawa's ever-youthful Amelia, a part that has always been her brightest talisman.

Alan Oyle gives Paolo the prominence he deserves, but the stage is rightly dominated by Roberto Scanduzzi's Fiesco and Alexandru Agache's Boccanegra. The contrast is marked not just in looks - Scanduzzi a patrician in the Charlton Heston mould, Agache a plebeian bruiser - but in diction: the Italian bass wins hands down on that score, sculpting his lines with seasoned skill. Agache sings with imposing weight, and brings statesmanlike authority to the Council Chamber; elsewhere, there is a want of finely-chiselled personality. Although one learns nothing new about *Boccanegra* from this production of the standard 1881 version, it provides a valuable yardstick for judging the little-known first version of 1857, which will receive its British stage premiere at Covent Garden on June 28. The chance to compare the two is the chief merit of this year's Verdi festival.

INTERNATIONAL ARTS GUIDE

BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203080
● Berliner Sinfonie-Orchester, with conductor Friedemann Layer and soprano Christine Schiffer in works by Wagner, Berg and Brahms; Jun 7

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Cavallera Rusticana: by Mascagni. Conducted by Simone Young. Soloists include Uta Priew, Johan Botha and Dennis O'Neill. The programme also includes a performance of *I Pagliacci* by Leoncavallo; Jun 5

BIRMINGHAM

CONCERT
Symphony Hall Tel: 44-121-2002000
● Orchestra of the Age of Enlightenment: with conductor Sir Simon Rattle and clarinetist Antony Pay in works by Schubert,

Mozart and Haydn; Jun 6

ECHTERNACH

CONCERT
Festival International d'Echternach Tel: 352-728347
● Orchestre Philharmonique du Luxembourg: with conductor Vladimir Jurowsky in works by Moussorgski and Shostakovich; Jun 7

EDINBURGH

EXHIBITION
Royal Scottish Academy Tel: 44-131-2256671
● 171st Annual Exhibition: featuring works by many of Scotland's leading contemporary artists; to Jul 5

FORT WORTH

EXHIBITION
Kimbell Art Museum Tel: 1-817-3328451
● Monet and the Mediterranean: exhibition bringing together 60 paintings produced by Monet on successive trips to the Riviera; from Jun 8 to Sep 7

FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Deutsche Symphonie Orchester Berlin: with conductor Vladimir Ashkenazy in works by Chopin and Korngold; Jun 8, 9, 10

LISBON

CONCERT
Grande Auditório da Fundação

Gulbenkian Tel: 351-1-7935131
● Orchestra of the 20th Century: with conductor Frans Brüggen and the Coro Gulbenkian in works by Mendelssohn; Jun 8

LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● Philharmonia Orchestra: with conductor Mikhail Pletnev and violinist David Garrett in works by Grieg, Tchaikovsky and Brahms; Jun 8
● Philharmonia Orchestra: with conductor Mikhail Pletnev and pianist Ivo Pogorelich in works by Tchaikovsky and Sibelius; Jun 10

EXHIBITION

Tate Gallery Tel: 44-171-8878000
● 1997 Centenary Displays: special display marking the 100th anniversary of the Tate and featuring a number of major works from the Gallery's collection, from Stubbs and Gainsborough to Matisse and Pollock; to Jun 30
Whitechapel Art Gallery Tel: 44-171-527888
● Cathy de Monchaux: display of work by the British sculptor who uses a wide range of materials, including brass, rusted steel, glass, paper, leather and chalk. The Lower Gallery of the Whitechapel has been transformed by a dramatic installation, described by the artist as "dream architecture"; to Jul 27

THEATRE

Cottesloe Theatre Tel: 44-171-9282252

● Closer: written and directed by Patrick Marber. The cast includes Sally Dexter and Ciaran Hinds; to Jun 28

LYON

DANCE
Opéra National de Lyon Tel: 33-4-72 00 45 00
● Ballet de l'Opéra de Lyon: performs Petrouchka choreographed by Nadi to music by Stravinsky and Concerto choreographed by Schöner to music by Stravinsky; Jun 6, 7

MADRID

EXHIBITION
Fundación Juan March Tel: 34-1-4354240
● Max Beckmann Retrospective: exhibition featuring 35 works completed by the German artist 1905-1950. Beckmann was at the forefront of the German avant-garde with work that forsook Impressionism for New Realism; to Jun 8

MILAN

OPERA
Teatro alla Scala di Milano Tel: 39-2-88791
● La Nozze di Figaro: by Mozart. Conducted by Riccardo Muti; Jun 6, 7

MUNICH

CONCERT
Cuvillies-Theater - Altes Residenztheater Tel: 49-89-296836
● Bayerisches Staatsorchester:

with conductor Peter Schneider and cellist Lynn Harrell in works by Dvorák and Sibelius; Jun 8-10

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-8795500
● No Ordinary Mortals - The Human (and not-so-human) Figure in Japanese Art: exhibition covering Japanese art from prehistoric times to the present, featuring paintings, sculptures, ceramics, textiles, lacquers and prints. Several newly restored paintings will be on display; to Oct 5

NICE

EXHIBITION
Musée d'Art Moderne et d'Art Contemporain Tel: 33-4-93 62 61 52
● Man Ray: retrospective exhibition featuring a selection of more than 200 works by the American photographer; to Jun 9

PARIS

CONCERT
Cité de la Musique Tel: 33-1 44 84 45 00
● Ensemble Intercontemporain: with conductor David Robertson, trombonist Benny Sluchin and cellist Pierre Strouh in works by Chin, Berio, Strappella and Schoenberg; Jun 8

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● La gourmandise: exhibition

featuring works from the collection of the Musée national d'art et de la Centre de création Industrielle. Featured artists include Lichtenstein, Doisneau, Brassai and Warhol; to Jun 30

ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Orchestra dell'Accademia di Santa Cecilia: with conductor Yakov Kreizberg and violinist Christian Tetzlaff in works by Mozart, Schoenberg and Brahms; Jun 8, 9, 10

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Jeunesse Orchester: with conductor Herbert Böck, in works by Prokofiev, Francaix and Dvorák; Jun 8

ZURICH

EXHIBITION
Kunsthaus Zürich Tel: 41-1-2518765
● Birth of the Cool: display of paintings by American artists, featuring works by O'Keeffe, Newman, Pollock, Arschwager, Katz, Warhol, Wesley, Morley, Colman, Close and Bleckner; from Jun 8 to Sep 7

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10.00

European Money Wheel

18.00

Financial Times Business Tonight

COMMENT & ANALYSIS



Edward Mortimer

Disenchanted paradise

While Turkey's political class is absorbed in a struggle over secularism, the country's dynamic economy is held back by a corrupt and inefficient state

By almost all economic indicators, Turkey should be an investor's paradise. It has more than a century of market experience, a strong entrepreneurial culture and a flexible economy that responds quickly to fine-tuning. Since the 1980s, it has been open to the world. This opening process culminated last year in a full customs union between Turkey and the European Union, though many Turks believe this was a one-sided bargain: Greece blocked the financial aid that was meant to come with it, and the first year showed a trade balance heavily tilted in the EU's favour.

Yet few Turkish companies went bankrupt. Many of them contributed to the import surge by bringing in raw materials and investment goods, laying the foundations for future exports. In the first three months of 1997, says Mr Gazi Erpel, central bank governor, exports were up 6.6 per cent while imports were 5.5 per cent down.

Yet, he complains, Turkey is far from getting its due share of worldwide foreign investment. And while the growth rate - 7.9 per cent last year - is impressive given Turkey's 80 per cent inflation rate, Mr Erpel is in no doubt that it could be much higher.

He also knows what needs doing to bring inflation down: complete the privatisation programme, broaden the tax base and reform the bankrupt social security system. But such reforms need a stable government, which Turkey does not have. Political instability does not only hobble the economy through inflation. Talk of a fundamentalist takeover - or of a military coup to prevent it - also frightens away foreign investors.

Turkey's secular middle class is convinced the country is threatened by militant Islam. But most of the

charges brought against Mr Necmettin Erbakan, the prime minister, and his Islamically-inclined Welfare party relate more to their supposed intentions than to their actual deeds. Among them are the following:

● A rally organised by the Welfare mayor of Sincan, a small town near Ankara, at which the Iranian ambassador was present and posters of foreign Islamic "terrorist" groups such as Hamas and Hizbollah were displayed. The mayor has since been arrested but the justice minister, also a Welfare member, shocked secularist opinion by visiting him in jail.

● A bitter campaign against the press, which Welfare accuses of bias, and an attempt to introduce a press law distinguishing good news from bad. The only press law actually passed limits the right of newspapers to promote sales through free gifts and prizes.

● A campaign to build a mosque in Istanbul's central Taksim Square. This is not new, but has been stepped up since Welfare came into government.

● Systematic recruitment of Welfare supporters to jobs at all levels of govern-

ment, allegedly threatening to bring about an irreversible Islamic counter-revolution.

● Empty but provocative attempts by Mr Erbakan to orient Turkish foreign policy away from the west and towards radical Moslem states such as Libya and Iran.

Welfare's ability to do actual damage in its coalition government, operating under the steady eye of the secular establishment, is in fact very limited. But the establishment has worked itself into a frenzy about what Welfare might do if not checked. There is mounting tension between the government and the armed forces. There is also discord between the coalition partners, or at least within the secular wing of the coalition - the True Path party led by Mrs Tansu Ciller, the foreign minister.

The cabinet meets only at two-month intervals and the government has for all practical purposes ceased to govern. All political energies are absorbed by the Islamist-secularist crisis. The armed forces have moved overtly into politics, through the National Security Council on which their

commanders sit *ex officio*. In February this body demanded educational reforms aimed at weakening the influence of religious schools, but the government has yet to comply.

A coup is unlikely. Three coups between 1980 and 1982 - each followed by an attempt to relaunch Turkish democracy on a sounder basis - have not prevented the present crisis. Today's military commanders are probably under no illusion that a fourth attempt would be more successful.

The current wisdom is that the army will not have to intervene directly, because the politicians will give ground without being forced. But that, in itself, is a step backwards for democracy.

Inadequate civilian control of the armed forces is one of many grounds on which Turkey fails to qualify for full EU membership. If it were not already a member of Nato it would be regarded as ineligible for that too.

Even Turkey's leftwing intelligentsia, which a year ago was mobilised in protest against human rights violations, has now virtually dropped that agenda to rally behind the secularist banner, allying itself with the armed forces and the state prosecutor.

Some opposition figures justify this by arguing that the central issue is not secularism, but the role and personality of Mrs Ciller. The government, says Mr Ismail Cem of the Democratic Left party, is tainted with "original sin" since it is based on a betrayal of principle by both coalition partners. Mrs Ciller, who had pledged to defend Turkish secularism against Welfare's rise, ended up enabling it to form a government. Likewise Mr Erbakan, who had sought to put Mrs Ciller on trial for corruption, agreed to bury the charges in return for her support.



Erbakan: his foreign policy has been provocative

Accountability of inflation-beaters

Robert Chote analyses the new committee responsible for setting UK interest rates

Mr Gordon Brown, the UK's chancellor of the exchequer, has appointed four highly regarded economists from academia, the civil service and industry to help set interest rates on the Bank of England's new monetary policy committee. Untested and unelected, Britain's interest rates will be in their hands.

These four experts will sit on the committee with five Bank insiders. The City of London reacted enthusiastically to the names, which dispelled fears that Mr Brown would pack the committee with political cronies and inflation doves.

Professor Charles Goodhart of the London School of Economics, is an old Bank hand and a leading expert on central banking. Sir Alan Budd, the chancellor's departing chief economic adviser, has long been seen as the in-house conscience of the Treasury. Professor William Butler, from Cambridge University, is a leading theoretical macroeconomist. Ms DeAnne Julius, from British Airways, brings industrial experience and the fresh eye of a US citizen.

But none of these people has been elected - which is precisely the point. The Bank has been given independent control of interest rates to reassure the public, wage bargainers and the markets that rates are being set for economic, rather than political, reasons.

Professor Kenneth Rogoff, of the University of California (Berkeley), famously argued in 1985 that society would benefit if control of interest rates were handed to central bankers with a longer-term view and a greater distaste for inflation than voters. But this demands that an independent central bank enjoys long-term public legitimacy.

Mr Brown aims to secure the Bank's democratic accountability in five ways: ● The chancellor will set the numerical target for inflation which the Bank

will be instructed to pursue. This is an attempt to make a distinction between the "political" task of choosing a target and the supposedly "technical" task of setting interest rates to achieve it.

● The chancellor will retain the right, with parliament's approval, to rescind the Bank's responsibility for setting interest rates if, "in extreme economic circumstances, the national interest demands it". Some economists argue that, even if this power is never exercised, it will help prevent the Bank from engaging in overkill when tackling inflation.

● Seven of the monetary policy committee's nine members will be appointed on fixed but renewable terms. This means they cannot be too careless of public opinion if they wish to be reappointed.

● The monetary policy committee will be overseen by the Court of Directors at the Bank, which will have particular responsibility for ensuring that it takes account of differing conditions in the various regions and sectors of the economy.

● The committee will be required to justify its conduct of monetary policy in its quarterly inflation report and to defend this in regular evidence to the Treasury Select Committee. There will also be a full parliamentary debate once a year.

In the eyes of the public, the Treasury Select Committee is likely to be the main channel through which the Bank is held to account. Treasury and Bank officials have always prepared themselves thoroughly for appearances before the committee, but some argue that its effectiveness is undermined by political point scoring.

Mr Bill Martin, economist at UBS and an adviser to the committee in the last parliament, argues that the members of the select committee should form a closer relationship with the academic and City economists that

advise it to develop better lines of questioning when the Bank is giving evidence.

It remains to be seen to what extent the select committee will hold the Bank to account through the governor and to what extent through the individual members of the monetary policy committee. In New Zealand, the governor takes responsibility for achieving a target laid down in a contract with the Treasurer. He can be dismissed if his performance is deemed inadequate, although this is not automatic if the target is missed.

The formal position in the UK is closer to the US where monetary policy decisions are taken collectively by the Federal Open Markets Committee. But congressional scrutiny is dominated by the chairman's appearances before the Senate and House Banking committees.

"The chairman is both the symbol and the leader," says Professor Alan Blinder, a former Fed vice-chairman. Most questioning by the committees "would not impress the Oxford or Cambridge debating societies," he says, but the Fed's accountability to the public matters more. "If the chairman goes to Capitol Hill and gives nonsensical blather, then he may well be severely criticised in the financial markets and by academics."

Mr Quentin Davies, a Conservative member of the old Treasury Select Committee, argues that parliament itself will have to decide how best to hold the Bank to account. This in turn will depend on where power really resides within the committee.

The experience of the Fed and the Bundesbank suggests the head of the central bank will wield power out of proportion to his voting strength. This could confuse the lines of accountability. Ironically, it would also limit the "depersonalisation" of interest-rate setting, which was an important objective of Mr Brown's reforms.

LETTERS TO THE EDITOR

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Super-SIB concept too complex and over-concentrates power

From Mr Michael Taylor.

Sir, As author of the "Twin Peaks" plan for reforming the UK's system of financial regulation, I would endorse the argument that there is a danger that a single regulator will obscure the different objectives of regulation.

In contrast, the purpose of the "Twin Peaks" model, with its separate agencies for systemic stability and consumer protection, is to make them more clearly distinct.

In addition to the confusion of regulatory objectives, there are at least four other significant problems with the "super-SIB".

First, a single regulator runs the risk of experiencing decreasing returns to management. The broad range of activities it will seek to regulate will impose excessive burdens on senior management, and could well result in information overload. Had super-SIB existed a few years ago, and had its man-

agement been engaged in dealing with a problem on the scale of pensions mis-selling, it is doubtful that they would have spotted the problems at Barings any more readily than did the Bank of England.

Second, a single regulator will be exposed to reputational contagion every time a financial scandal occurs. How will the super-SIB be able to avoid an apparent failure in one area of its regulatory responsibilities damaging its reputation in other, unrelated, areas?

The argument that monetary policy and banking supervision need to be kept distinct to preserve the credibility of the former seems to apply equally to the task of regulating different sectors of the financial services industry.

Third, how will the super-SIB, especially its compensation scheme, be funded. How much cross-subsidy will be built into the arrangements? Will invest-

ment banks be expected to contribute to the costs of clearing up pensions mis-selling? This could damage London's position as an international financial centre.

Fourth, a single regulator simply places too much power in too few hands. It will be responsible for regulating a group of industries which collectively account for 19 per cent of UK gross domestic product.

On each of these counts a "Twin Peaks" model offers a superior solution to the super-SIB. I trust that the government has not so far pre-judged the issue to have ruled out this option before the consultation process has even begun.

Michael Taylor, reader in financial services regulation, London Guildhall University, 84 Moorgate, London EC2M 6SQ, UK

A soft option may offer no choice at all

From Mr George R Lees.

Sir, In a matter of a few weeks we have moved from contemplating the future of the Euro in terms of a hard euro to a soft one.

It is little wonder that the ordinary German views the euro as "fudge-coated chocolate money" that he certainly does not want to put in his pocket!

The crux of the Euro prob-

lem has always been, and remains, the difficulties of financing the welfare state. National differences in welfare systems make the situation even more difficult, but the budgetary problem is the most intractable. Each time a country proposes a significant reform, political opposition (and strikes) blocks progress.

The soft euro implies an

Italian rather than a German approach to monetary management. The implications of this change in monetary policy are higher rates of inflation and interest rates.

A soft euro may, of course, mean no euro at all.

George R Lees, 12 Roedean Crescent, London SW15 5JU, UK

Dogmas are short on wisdom

From Sir Gerald Elliot.

Sir, The FT intellectuals, and many investing institutions, seem to be in the grip of two fashionable dogmas, one that the pay-back of capital and substitution of loans for equity will improve a company's earnings in both the short and longer term, the other that the breaking of any large company into parts, separately quoted, will increase total profits and share prices. The code name for this is "shareholder value". Of course these ideas have merit in certain circumstances, but to apply them universally is absurd. It was revealing to read Lex ("Thorn EMI", May 29) struggling to reconcile its belief in the demerger of Thorn and EMI with its evident failure in share price terms. A company which I helped to build up, Christian Salvem, fell victim to the same dogmas a few months ago, when a large repayment of capital and "demerger" were pushed through despite strong opposition by its private shareholders. The unwisdom of that has been already reflected in a substantial fall in the share price. I hope institutions investing in British industry will think again before the damage caused by these doctrines becomes widespread.

Gerald Elliot, 8 Howe Street, Edinburgh EH3 6TD, Scotland, UK

Pay rise was fiscally responsible and within the law

From Mr Roy Chaderton-Matos.

Sir, I refer to your report "Venezuela cabinet faces probe" (May 28). While the UK has been enjoying the warmth of an anticipated summer following the general election, in Venezuela, where political campaigns tend to run a little longer, the heat of premature electioneering gives rise to distorted realities which sneak into the international press

in the guise of established truth. Although citizens of democratic societies grudgingly put up with electoral posturing, they rely on the media as a means of filtering out the chaff and the outright fabrications. One of the proudest achievements of President Rafael Caldera's government has been its agreement with the unions and the private sector on a fiscally responsible pay rise. The ministerial cabinet simply ensured that all branches of government were in a position to honour the agreement drawing from existing budgetary resources and set in motion the standard process whereby additional credits are requested from the National Congress. In so doing, my government has not only acted in accordance with the law, but also with its commitment to economic growth and social justice.

To paraphrase President Caldera: "It is a difficult state of affairs indeed, in which a high-ranking official entrusted to control public spending, can proclaim to the media that the payment of the workers' salary increase is a crime."

Roy Chaderton-Matos, ambassador, Embassy of Venezuela, 1 Cromwell Road, London SW7 2HW, UK

how to spend it



How long will the Derby last and will it be for only fools and horses? Why is the humble white T-shirt a hot item for the hip? Where can the intrepid traveller find lunar landscapes and white knuckle adventure within four hours of London? And why does a mentor maketh the man?

Find out in **how to spend it** magazine, Colour Supplement of the Year in the 1997 Newspaper Awards, published free with the Weekend FT on Saturday 7 June.

Election exposes deep regional divisions

Canada's Liberals win five more years

By Bernard Simon in Toronto

The Liberals have secured a second five-year mandate to govern Canada - but the electorate has cut their majority and exposed the country's deep regional divisions.

The ruling party won 155 out of 301 seats - down from 177 seats in the previous election in 1993 - after a poll that gave all the main parties, with one exception, cause for both celebration and contemplation. Some strategists said Mr Jean Chrétien, Liberal leader and prime minister, could face a challenge from his own party.

The Reform party, whose stronghold is the western provinces of Alberta and British Columbia, emerged as the official opposition in the House of Commons, boosting its representation from 52 to 60 seats.

Reform's populist platform, which included a hard line against Quebec nationalism and pledges to cut taxes and abolish gun controls, failed to sway voters in Ontario, one of its main targets, and the party

did not capture a single seat east of Manitoba.

The Progressive Conservative party, which held office from 1984 to 1993 but was reduced to two seats in the last election, staged a modest comeback with 20 MPs. Political observers were unsure whether the Tories' performance would be sufficient to attract funds and volunteers over the next five years.

The secessionist Bloc Québécois was reduced from 54 to 44 MPs, but captured more seats than many observers had expected after a gaffe-prone campaign. The social democratic New Democrats won 21 seats, up from nine in 1993.

Mr Chrétien called an early election saying he wanted a fresh mandate to take Canada into the 21st century. But he is widely perceived to have run a lacklustre campaign, offering few fresh ideas.

His own constituency in rural Quebec was one of the tightest races in the country, with the prime minister scraping in by fewer than 1,600

votes. Mr Chrétien, whose political career spans more than three decades, gave no indication yesterday of stepping down. But one Liberal strategist said: "His position is weakened. It would be surprising if there weren't some grumblings and mumblings."

The Liberals' second term is expected to be dominated by Quebec separatists' plans for another independence referendum, and by a debate on fiscal strategy after the federal budget is balanced, probably in 1998.

Financial markets gave the election results a muted reaction, with the Canadian dollar virtually unchanged and bond prices slightly lower.

Mr Mark Chandler, economist at Goldman Sachs Canada, said relief at the Liberal majority was tempered by its slim margin of victory and by the Reform party's outspoken stance on Quebec.

Populist ready for the limelight, Page 6; Editorial Comment, Page 11

World Bank sends managers to learn from burger bars

By George Graham in Interlaken

Mr James Wolfensohn, president of the World Bank, is sending 300 of his top managers to business schools to learn to think more like Burger King employees.

Mr Wolfensohn, who won board approval this year for a far-reaching investment and restructuring programme to improve the bank's operations, said the training was part of his efforts to change its culture.

He wants the bank to become less preoccupied with how many loans it approves and more concerned with how much its projects help improve conditions in the developing countries which are its customers.

"They [the managers] never knew the bank was so much like Burger King, facing the same problems of improving the effectiveness with which it serves its clients," Mr Wolfensohn told an audience of senior commercial bankers in the Swiss resort of Interlaken yesterday.

Managers are being sent in groups of 15 on six-week management training courses devised by the universities of Harvard and Stanford, and the Kennedy School of Government. The courses will bring the managers together with executives from industry, finance and government organisations in developing countries.

The training course is rounded off with a seventh week spent in the field, "not in a hotel but living in a slum with a non-governmental organisation".

Mr Wolfensohn said the real problem in changing the World Bank's entrenched management culture lay not just at the top but in the "marshmallow middle".

To tackle the problem head on, the World Bank had removed 150 line managers from their jobs and made them reapply, either for their own jobs or for positions elsewhere in the organisation.

"Some people who are icons are not getting jobs. Others who are corners are getting jobs," he said.

The World Bank's restructuring will add \$250m to its running costs between now and 2001. Its aims include shifting resources from administration to front-line operations, developing new services, boosting the technical expertise of staff and decentralising activities to client countries.

Mr Wolfensohn admitted the transformation would be difficult. "To change a bureaucratic organisation into one that is client-orientated is not an easy task."

THE LEX COLUMN

Buba wins the gold

By defusing its golden bomb, Germany has given monetary union back some much-needed credibility. The government's retreat in the row over revaluing Germany's gold reserves is a victory for the Bundesbank and points to a tougher monetary union - one in which none of the participants can cook their books. This is certainly what lifted European bond and stock markets, as well as the D-Mark, yesterday.

But Germany still has a problem. Without the extra "profit" from the gold reserves, it has virtually no chance of hitting the Maastricht criteria in 1997. And time is running out: even if spending cuts or tax rises turned out to be politically feasible, there are only six months left to fill a hole in the budget that could be anywhere between DM100m (\$5.8m) and DM200m.

A delay, unthinkable until recently, is therefore starting to look more likely. If monetary union were to be decided on 1998 figures, Germany should qualify - perhaps even without use of the gold profits, which would by then have passed over to the government. Certainly it should be able to demonstrate convergence towards Maastricht, allowing Chancellor Helmut Kohl to enlist the Bundesbank's help to sell the euro to the German people.

Even a postponed Euro, however, would probably still have to be a broad one, not least given the attitude of France's new government. And of course, just a brief delay would still not be long enough for the labour market shake-up a workable Euro badly needs.

French privatisation

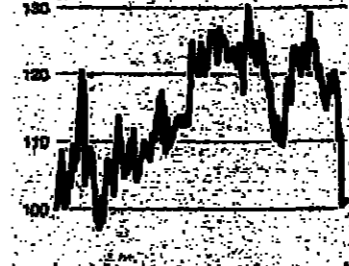
Has the juicy French privatisation programme really been stopped dead, or is it just likely to suffer a brief post-election hiccup? The Socialist's hostile rhetoric has been conspicuously vague on detail. Yet the small-print promises of pragmatism provides optimism with plausible grounds to conclude all is not lost.

Their best argument is financial. There are month-wasting sums at stake. True, privatisation proceeds do not help with the Maastricht deficit criteria - but even from that narrow perspective, a decision to abort the partial sale of France Telecom would surely put a question mark over the decision to treat its pension fund transfer as conveniently cutting the public deficit. Then there are the likes of Crédit Lyonnais, GAN or Thomson Multi-

FTSE Eurotrack 200:
2370.6 (+15.2)

Thomson-CSF

Share price relative to the SBF-120 index



Source: DataStream

UK mobile phone group, is getting its act together. Vodafone may eventually need to respond by cutting prices. But One-2-One does not seem intent on launching an all-out price war; none of the market's four competitors has an interest in cutting its own throat. While the heady growth of previous years has abated, there should be enough to keep UK profits on a modestly rising curve.

Meanwhile, Vodafone's foreign operations are rapidly swinging into profit. Last year's maiden £10m operating profit should be followed by over £100m this year and £200m next. With such an outlook, the shares, which trade on around 20 times current-year earnings, do not look expensive.

Racal Electronics

Racal is up for sale. Oh no it isn't. Sir Ernest Harrison, Racal's veteran chairman, is adamant that there is value hidden in the underperforming electronics group and promised yesterday to stick around until he finds it. How he will do so is rather less clear. Some of Racal's mixed bag of telecommunications, defence and data products businesses could be sold, joint ventured, even floated in the US; others might more sensibly be grown internally, or at least sorted out before disposal. But which business will be blessed with which strategy remains a mystery - though teams of highly paid investment bankers are on hand to help Racal's managers make up their minds.

They might look at the stock market instead. The message from a share price that has underperformed by a third over two years is that investors are uncomfortable with Racal's management running anything, let alone a group of high-tech businesses in rapidly changing markets. The one ray of light after three profit warnings in six months has been the hope of a rapid break-up of the group. While sum-of-the-parts valuations range widely from 185p to \$30p, most suggest an uplift from yesterday's 235p share price.

The first step from here to there is to find a partner for telecom services, Racal's best business, but one from which value is leaking as competition increases and margins decline. Until Racal manages that, the shares are best avoided.

Additional Lex on Amstrad, Page 19

S Korean president faces battle for finance reforms

By John Burton in Seoul

South Korea's powerful finance ministry could see its influence curbed under plans tabled yesterday by a government-backed committee.

The financial reform committee proposes to grant independence to the country's central bank and transfer the ministry's supervision of the financial sector to a new watchdog.

The plan sets up a bruising battle between the finance ministry, which will draft the final reform legislation this month, and President Kim Young-Sam.

President Kim endorsed the reforms when he appointed the panel in January. But corruption scandals may have undermined his ability to push through changes against an entrenched bureaucracy which has controlled the economy for 35 years.

The scandals have "consigned President Kim to a relatively passive role for the

remainder of his term", which ends early next year, said Mr Yoon Yong-chul, banking analyst for SBC Warburg Securities in Seoul.

The commission's most controversial proposal is to give the central bank autonomy in setting monetary policy instead of being subject to the political influence of the finance ministry, which has often emphasised economic growth at the expense of inflation.

Analysts believe central bank independence would result in more consistent financial policies, while improving prospects for stable prices through a monetary policy freed from political considerations. The central bank has long fought a bureaucratic war against the finance ministry in trying to gain autonomy.

Although the ministry is expected to oppose the proposal for central bank independence, it has accepted the commission's recommendation

that it should create a financial watchdog to replace three separate bodies currently overseeing banks, securities houses and insurers.

The new supervisory board will report to the prime minister instead of the finance ministry, at present responsible for such regulation.

The panel, however, bowed to pressure from the finance ministry in scrapping a proposal to give Korea's big conglomerates greater control of the main banks.

Some analysts believe the industrial groups could improve the management of the ailing banks, which are saddled with large bad debts because of corporate lending decisions dictated by government bureaucrats.

Conglomerates are limited to a 4 per cent individual shareholding in the main banks, to prevent them from further increasing their considerable economic power. The panel decided to maintain the 4 per cent ceiling.

Investors shun Bakun dam issue

Continued from Page 1

the money raised from Ekran's rights issue, M\$660m is to part-finance its subscription for a 32 per cent stake in Bakun Hydroelectric, the dam operator which is expected to

launch its IPO late in July. A further M\$278m will be used to repay borrowings made to finance the acquisition of Wembley Industries Holdings, an Ekran subsidiary.

Critics of the dam say the 2,400MW venture's projected 13

per cent return on equity after it starts generating in 2003 is too low to justify its M\$13.6bn construction cost. Skepticism was evident last month when 54 underwriters were needed to support Bakun Hydroelectric's forthcoming IPO.

FT WEATHER GUIDE

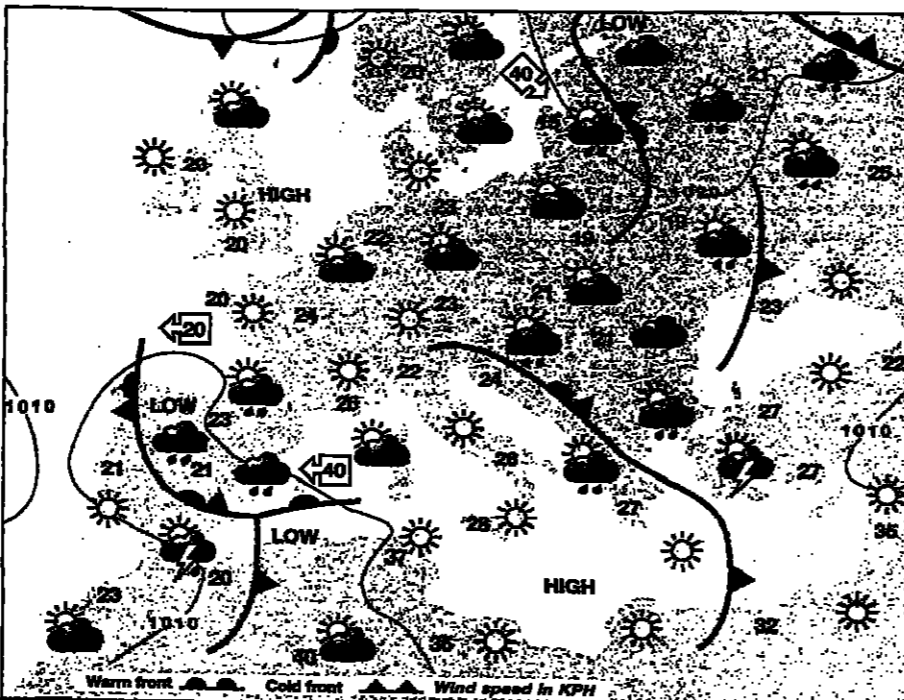
Europe today

Sunny periods will prevail across Scandinavia, the Benelux and Germany. France will start off with abundant sunshine, but the south-west will become increasingly cloudy by afternoon, followed by showers and thunder storms. More rain with some strong thunder storms are expected in eastern Portugal and much of Spain.

Italy will stay dry with mostly clear skies although scattered cover is likely over the Apennines. Greece will also be sunny, but the Balkans can expect cloud with showers and the possibility of thunder storms. In Turkey scattered afternoon thunder storms are possible.

Five-day forecast

Showers and thunder storms will spread across France, and even to the Benelux countries by Friday. Cloud and widespread rain or thunder storms are also expected over much of Italy during the next few days. By the weekend most of these showers will have moved across to the Balkans.



TODAY'S TEMPERATURES

Abu Dhabi	sun 43
Accra	cloudy 30
Algiers	thund 28
Amsterdam	sun 22
Athens	sun 27
Atlanta	show 23
B. Aires	fair 17
B. Ham	sun 21
Bangkok	thund 38
Batavia	rain 22

Cairo	sun 26
Cebu	sun 26
Chengdu	fair 22
Chicago	fair 23
Cologne	show 28
Dallas	thund 19
Dhaka	fair 33
Doha	fair 22
Dubai	fair 21
Dublin	sun 20
Durham	sun 33
Edinburgh	sun 19

Geneva	fair 31
Hankow	sun 22
Hong Kong	sun 29
Houston	sun 29
Indan	sun 19
Jakarta	fair 23
Kuala Lumpur	sun 28
Kuwait	sun 41
L. Angeles	fair 22
Las Palmas	fair 25
Lima	fair 21
London	sun 22
Luxembourg	sun 24
Lyon	show 21
Macau	show 21

Madrid	thund 20
Manila	sun 24
Manila	sun 21
Medan	sun 22
Melbourne	rain 14
Miami	sun 31
Montreal	show 26
Moscow	fair 17
Murich	fair 25
Nairobi	sun 25
Naples	show 21
Nassau	cloudy 19
Nice	fair 24
Nicosia	sun 30
Osaka	sun 20
Paris	sun 24
Perth	show 18
Prague	fair 22

£300 million 8.75% due May 2002

Sole Bookrunner

May 1997

£750 million 7% due June 2002

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May 1997

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FINANCIAL TIMES COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1997

Wednesday June 4 1997

Week 23

PIPELINE CENTER

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The name behind the success

IN BRIEF CNN, Oracle link for internet news

Cable News Network is to announce a joint venture with Oracle, the database software company, to create a "personalised" news service on the internet. The CNN service will be the most sophisticated of its kind, providing users with text, graphics and video news reports according to their interests. Page 17

Hilton's interest in ITT wanes
Hilton Hotels, waging a \$5.5bn hostile bid battle for the rival ITT hotel and casino group, showed signs of losing interest in the fight after it emerged that ITT was entertaining offers for some of its prime hotels. Page 18

Enron and Enel plan electricity venture
Enel, the Italian state electricity group, reached a tentative agreement with Enron, the Texas energy group, to form a \$5.5bn (£3.9bn) joint venture to compete in the Italian and European electricity markets when they are deregulated in 1999. Page 15

Humana to buy Physician Corporation
Humana, the US managed-care provider, has agreed to buy Physician Corporation of America in a deal valued at \$400m. As part of the offer, Humana will take on \$130m in debt. Page 18

Thai water utility set for \$50m IPO
Thailand will test the market for water privatisation in Asia this week as East Water, a government water distributor, attempts to become the first private water provider in the region. The company is launching a public share offering worth at least \$50m. Page 16

Transformer may cut electricity costs
The cost of electricity for industrial users could be cut by millions of dollars a year as a result of a transformer being developed by Hitachi of Japan and AlliedSignal of the US. Page 16

Financial income lifts Carlsberg
A sharp increase in financial income boosted pre-tax profits at Carlsberg, the Danish brewery group, from DKK741m to DKK870m (\$132m) in the six months to March 31. Page 15

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Chief price changes yesterday		
FRANKFURT (DEM)		
Boat & S&S	182.5	+ 11.3
BOE	520	+ 12
SEL Carbon	238.5	+ 7.5
Bohle	510	- 11
Bohlewerk	171.5	- 3.2
DLK	491	- 17
NEW YORK (USD)		
Bohle	534	+ 2%
SEL Carbon	514	+ 2%
Bohle	339	+ 2
Bohle	224	+ 2%
Cabletron	30%	+ 15%
Bohle	281	+ 2%
LONDON (Pence)		
Bohle	92%	+ 13%
Bohle	471	- 47%
Bohle	631	- 48
Bohle	227	- 73
Bohle	75	- 20
TORONTO (CAD)		
Bohle	11.0	+ 1.0
Bohle	8.1	+ 1.0
Bohle	6.8	+ 0.8
Bohle	2.08	- 0.27
Bohle	2.8	- 0.35
Bohle	3.05	- 0.35
PARIS (FFP)		
Bohle	949	+ 53
Bohle	937	+ 24
Bohle	631	+ 41
Bohle	986	+ 37
Bohle	424	+ 25
Bohle	498.3	- 14.7
TOKYO (Yen)		
Bohle	726	+ 33
Bohle	425	+ 22
Bohle	770	- 24
Bohle	515	- 25
Bohle	380	- 18
Bohle	656	- 19
HONG KONG (HKD)		
Bohle	42.8	+ 1.2
Bohle	79.5	+ 1.5
Bohle	47.4	+ 1.5
Bohle	77.25	- 25
Bohle	91.5	- 1.75
Bohle	74.5	- 2.25
SINGAPORE (SGD)		
Bohle	25.0	+ 2.25
Bohle	11.5	+ 1.5
Bohle	20.75	+ 1.75
Bohle	20.25	- 2.25
Bohle	43.0	- 1.0
Bohle	43.0	- 1.0

New York and Toronto prices at 12.30pm.

Unisource partners to strengthen ties

By Alan Cane in London

Unisource, the alliance of European telecommunications operators shaken by the defection of a key partner last month, moved yesterday to tie the remaining members more tightly together.

The partners, KPN of the Netherlands, Telia of Sweden and the Swiss national operator, said they intended to merge their carrier services operations into a \$2bn turnover pan-European wholesaler.

Carrier services groups sell wholesale transmission capacity to other operators.

Mr Paul Smiths, Unisource president, said the move had been under consideration for some time but had been precipitated by the decision of Telefonica of Spain to switch last month from Unisource to Concert, an alliance of British Telecommunications and MCI of the US.

Partnerships involving exchanges of equity were fairly simple to undo - merging networks created a more stable organisation, Mr Smiths said.

Unisource is one of a small number of alliances hoping to benefit from European telecoms liberalisation on January 1 1998. It is the European partner of AT&T, the largest US operator, but has been plagued by talk of instability. This will not be improved by news that its co-founder, Mr Ben Verwaayen, president of PTT Telecom, the Dutch national operator, is to take a top post at Lucent Technologies, the largest US telecoms manufacturer.

Mr Verwaayen, 45, has been made president of Lucent's international operations and will direct foreign strategy and operations virtually everywhere outside North America.

He said yesterday he had given his "heart and soul" to Unisource.

Mr Verwaayen said his departure would not affect the alliance. "This is more of a blow for PTT Telecom than for Unisource," he said.

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Telecoms alliance's move comes as co-founder departs

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Wal-Mart to control Mexican retailer

By Daniel Dombey in Mexico City

Wal-Mart, the world's largest retailer, announced it would purchase a stake giving it majority control of Cifra, the Mexican retailer, in a deal worth \$1.2bn.

The deal, which builds on a joint venture launched in 1991, comes at a time when two other US retailers - Kmart and Sears - have withdrawn or reduced their presence in the Mexican market. With overall retail sales in Mexico still at only three-quarters of the level reached in 1994, before the peso crisis, Wal-Mart emphasised that it was not looking for a quick profit.

"Wal-Mart's outlook in Mexico has always been long term," said Mr Les Kaplan, a company spokesman. He noted, however, that the company's Mexican operations have produced a positive cashflow in the past few months.

"It is an excellent opportunity to diversify," he added, referring to Cifra's restaurants and department stores, which Wal-Mart had been thought reluctant to take on.

The two companies have been in discussion for most of the year and it emerged in April that Wal-Mart was seeking to acquire an equity stake in the Mexican company.

Under the terms of the agreement, Wal-Mart will exchange its stake in the joint venture for Cifra common stock. Pending shareholder approval, the US company will purchase a further 12 to 13 per cent of

outstanding Cifra shares at between \$1.89 and \$2.03 a share.

Wal-Mart's fresh investment is expected to come to a total of \$1.2bn.

Before the acquisition is completed, Cifra will pay a \$300m dividend to its existing shareholders. Half the shares are publicly traded, while most of the rest belong to the

Arango family, which has controlled the company since its creation 40 years ago.

The existing joint venture controls 145 stores and restaurants in Mexico. Cifra independently manages a further 228 stores and restaurants.

Wal-Mart said its purchase was an opportunity to expand to smaller towns in Mexico, where Cifra has more experience. The US company also hopes to use Cifra's management expertise to expand elsewhere in Latin America.

Although some analysts said Wal-Mart was paying a hefty premium, the markets welcomed the deal. By midday Cifra's shares were up 2 per cent at 12.74, while Wal-Mart was up 1/2% at \$31.

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Japanese insurers hit by rivals on pensions

By Gwen Robinson in Tokyo

Japan's biggest life insurance companies manage fewer corporate pension fund assets than they did a year ago, according to data compiled by the Trust Companies Association of Japan.

The decline, the first in 30 years, reflects increasing competition.

The sector, dominated by the top 13 life companies, saw its assets under management fall 3 per cent to ¥15,698bn (\$194.75bn) in the year to March 31. By contrast, Japan's trust banks increased their share of corporate pension funds by 14.3 per cent over the period, and foreign companies also made inroads.

Competition is intensifying, partly as a result of deregulation.

In April last year the Life Insurance Association of Japan cut the level of the guaranteed annual return offered by fund managers from 4.5 per cent to 2.5 per cent. Life companies lost business after the move.

Nippon, which manages about ¥23,000bn in public sector pension fund assets, reduced the amount of funds it places in the so-called "fixed accounts" of life companies by 9 per cent, greatly influencing smaller pension funds.

The fall in Japanese interest rates and declining yields on investments including equity holdings, has also hit the life industry, depressing returns.

The sector's problems were highlighted last month by the collapse of the Nissan Mutual life group.

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COMPANIES AND FINANCE: EUROPE

Full sell-off of Bank Austria faces delay

By Eric Frey in Vienna

The planned full privatisation of Bank Austria may be delayed until well into the next century following the revelation yesterday that Germany's Westdeutsche Landesbank, which already owns 10 per cent in Austria's largest bank, has a right of first refusal to shares controlled by the city of Vienna.

News of WestLB's option sparked a heated row between the Social Democratic and the conservative

People's parties, which govern together at the national level and in the capital.

It is the latest in a series of political battles over bank privatisation in Austria.

The People's Party wants the left-led Vienna government to unload a 45 per cent stake in Bank Austria - worth about Sch20bn (\$1.65bn) - that is held by AVZ, a foundation controlled by the city authorities. However, it also insists that Bank Austria remain under domestic control.

Earlier this year, the People's Party agreed to the takeover by Bank Austria of the government's 70 per cent stake in Creditanstalt, the country's second-largest bank, which was traditionally close to the conservatives, only on the condition that Bank Austria was fully privatised.

Last month, the coalition in Vienna agreed to sell all Bank Austria shares over the next six years. But unless WestLB renounces its right, a sale of the AVZ

shares is unlikely until after 2001, when the German bank's option expires and an Austrian buyer can be found.

WestLB took the option when it acquired its existing Bank Austria stake in late 1995. The People's Party claims it was misled by the bank's management, which kept the option secret.

Mr Hannes Farnleitner, economics minister, yesterday demanded that the Creditanstalt sale should be reversed. This was rejected

by Mr Viktor Khima, the Social Democratic chancellor, and dismissed as technically impossible by banking experts.

The Social Democrats and Bank Austria will certainly be happy about any delay in the sale of the AVZ shares. The bank is planning a Sch3bn rights issue later this month and the federal government hopes to unload its 19 per cent stake in Bank Austria before the end of the year, for about Sch8.5bn. These placements

could be hurt by the prospect of further share offerings.

Mr Michael Haupl, Vienna's mayor, said he would prefer the city's stake to wither away, as AVZ would not participate in a share swap for Creditanstalt minority shareholders in the autumn and in future capital increases.

But for the People's Party, the AVZ shares are a symbol of excessive influence by the Social Democrats in the banking sector.

EUROPEAN NEWS DIGEST

Grundig admits to deeper losses

Grundig, the troubled German electronics company, yesterday admitted to a bigger loss last year than had been previously estimated. It blamed extra costs associated with its separation from Philips, the Dutch electronics group. Philips cut Grundig adrift in January, relinquishing management control, after heavy losses at the German company which the Dutch group was obliged to cover.

Grundig said it recorded a net loss of DM631m (\$366m) in 1996, higher than the March estimate of DM553m, and which it expected Philips to pay. The 1996 shortfall followed a DM558m loss in 1995. Grundig said that since March, a further DM78m in costs had been incurred in connection with the separation from Philips. This took total restructuring costs in 1996 to DM635m.

Graham Bowley, Frankfurt

BA/AA decision delayed

Mr Karel Van Miert, the European Union competition commissioner, yesterday said the Commission was unlikely to give its verdict on the proposed alliance between British Airways and American Airlines until after the August holiday. The controversial deal has been on ice for a year, waiting regulatory approval from British, EU and US competition authorities.

Recent co-operation between the new British government and the Commission, as well as a cordial meeting on Monday between Mr Van Miert and Mr Robert Ayling, BA's chief executive, raised expectations that the Commission would rule on the deal before the summer break. But the Commission will have to consult a committee of national competition officials on the alliance, so a final recommendation is likely to be delayed.

Emma Tucker, Brussels

Endesa in share split

Endesa, Spain's leading power group, yesterday became the latest Spanish company to propose splitting its shares to make itself more attractive to small investors. The four-for-one split, reducing the nominal value of Endesa's shares from Ptas800 to Ptas200, comes ahead of a privatisation offering this autumn in which the state is set to sell up to half its 67 per cent stake in the group.

The split is aimed at ensuring that a large part of the offering - which at current market prices would be worth up to Ptas900m (\$6.7m), Spain's largest - is placed with retail investors, widening the group's shareholder base. Endesa's shares closed yesterday at Ptas1,280, a rise of 1.5 per cent.

David White, Madrid

Suez-Lyonnaise gets go-ahead

The European Commission will today approve a merger between Compagnie de Suez and Lyonnaise des Eaux, the two French companies, according to Mr Karel Van Miert, the competition commissioner.

He said that by offering to sell Lyonnaise des Eaux's 49 per cent stake in a Belgian waste management company, the new company, to be known as Suez-Lyonnaise, had produced an acceptable remedy to the only potential competition problem raised by the merger.

Emma Tucker

SBC launches green funds

Swiss Bank Corporation has launched two investment funds enabling investors to buy shares in "ecologically sound" companies, joining a growing number of financial institutions creating "green" investment vehicles.

The bank has developed criteria for ecological performance with external environmental experts, including Mr Ernst von Weltzacker and Amory Lovins, co-authors of *Factor Four*, which sets out how industry can increase profits by making more efficient use of energy and materials.

The SBC Eco Performance Portfolio - World Equities is being offered until June 13 at SFr500 a unit and is subject to an issue fee of 1 per cent and 0.168 per cent in Swiss turnover tax. Over the same period, SBC's AST investment foundation is offering a fund called "Aktien Welt Oeko-Performance" for SFr1,000 a unit.

Leyla Boulton

Rhône-Poulenc joint venture

Rhône-Poulenc, the French chemicals and drugs group, plans to sell 50 per cent of its French chlorine, soda and bleach production and marketing operations to LaRoche Industries of the US for an undisclosed sum to create a 50:50 joint venture.

The move is in line with the French company's strategy of focusing on specialty chemicals activities, which are seen as less sensitive than base chemicals to economic cycles. The activities in question have an annual turnover of between FF500m and FF600m (\$86m-\$103m).

David Owen, Paris

Socata chief resigns

Mr Jean-Marc de Raffin-Dourmay has resigned as chairman of Socata, the light aircraft manufacturing subsidiary of Aerospatiale, the French state-owned aircraft, space and defence group. He will be replaced by Mr Philippe Debrun, chairman of Revima, the Aerospatiale-controlled aeronautical maintenance specialist. No reason for the resignation was given.

David Owen

PolyGram keeps first place in music sales

By Alice Rawsthorn

PolyGram consolidated its position as the world's largest music company in the first quarter of this year, while Sony and Warner both lost market share, according to the latest issue of Music & Copyright, the FT newsletter.

EMI, which last week announced plans to shed staff in North America, also increased sales.

By far the fastest growing music company during the quarter was Universal Music, whose music sales rose 61 per cent to \$887m.

Universal, a subsidiary of Seagram, the Canadian entertainment group, has long been the smallest of the multinational music groups. Its performance has improved in the two years since its acquisition by Seagram, which has expanded

Universal's operations outside the US.

Another catalyst for the increase in Universal's first-quarter music sales was a series of best-selling albums from acts signed to Interscope, the US label, in which it has a 50 per cent stake - notably No Doubt, the US band, and Bush, the British group. But despite Universal's growth it is still smaller than other multinational music groups.

PolyGram, part of Philips, the Dutch consumer electronics concern, saw music sales rise 9.4 per cent to \$1.01bn in the first quarter, thanks to strong demand for the new U2 and Andrea Bocelli albums.

EMI, the UK group, claimed the second-largest share of the market with quarterly sales up 2.9 per cent to \$999m. Almost all the increase was attributable

to the Spice Girls' debut album.

Warner, part of Time Warner, the US media company, mustered music sales of \$933m, down 5.1 per cent on the first quarter of 1996, when Alanis Morissette's *Jagged Little Pill* sold strongly.

Similarly the 18.5 per cent decline in sales to \$948m at Sony Music, part of the eponymous Japanese electronics group, reflected a fall-off in demand for Celine Dion's albums.

Quarterly sales figures were not available for BMG, the world's fifth-largest record company, which belongs to Bertelsmann, the privately-owned German media group.

Music & Copyright cautions that its figures are influenced by external factors such as different exchange rates.



No Doubt, a US band, helped Universal Music's sales grow faster than its rivals' last quarter

Heidelberger, Kodak in digital printing tie-up

By Graham Bowley in Frankfurt

Heidelberger Druckmaschinen, of Germany, the world's biggest supplier of printing presses, and Eastman Kodak, of the US, yesterday forged a strategic alliance for the joint development and marketing of digital printing products.

The move reflects the increasing sophistication and competition in the international printing industry. Rapid technological change, particu-

larly in digital imaging, is having a significant influence on printing processes.

Mr Richard Pignataro, president of Kodak Professional, the professional imaging unit which is the US company's second-largest division, said the deal meant the companies would be able to offer a wider spectrum of compatible printing services.

"This is a big step for Kodak: it is a clear signal. Kodak has been moving more aggressively away

from consumer goods towards systems solutions," he said.

The agreement will provide Kodak - which is a leading producer of digital printing plates, film, paper and other printing supplies - with image setters and other printing equipment made by the German company.

The companies said the move was a step towards providing "one-stop" shopping for customers in the printing industry.

"A large set of customers require

integrated computer-to-output solutions to maximise the potential of digital technologies, and we are now positioned to satisfy those needs around the world," Mr Pignataro said.

The agreement will strengthen links between Kodak Professional and Linotype-Hell, the German printing company in which Heidelberg acquired a majority stake last year. Kodak and Linotype-Hell already co-operate in some areas. Officials said no money would

change hands immediately, but that the companies would work together more closely in marketing, technology sharing and eventually in the pooling of investments.

Mr Wolfgang Pfizenmaier, a member of the board of Heidelberg Druckmaschinen, said: "We will continue to help our customers migrate from analogue to digital solutions and augment their offset printing business with new digital printing solutions."

Diversity helps Anglo advance

By Mark Ashurst in Johannesburg

Anglo American, South Africa's biggest company, withstood a decline in earnings from its industrial and platinum interests to announce a robust increase in full-year profits.

Net income for the year to March 31 rose 24 per cent, from R6.1bn to R7.6bn (\$1.7bn), while earnings per share increased 23 per cent, to R21.44. The final dividend was R5.40, for a total of R7.

Analysts said the results - at the upper end of expectations - justified the diversity of the group, although expansion of Anglo's core businesses had strengthened the case for changes to the group's capital structure.

"Diversity has paid off. Gold has done very well while industrials came off -

we expect the reverse to happen next year," said Mr Rob Kirtley, analyst at Deutsche Morgan Grenfell.

Diamond earnings increased a third to R1.13bn, or 17 per cent of the total, reflecting renewed strength in the rough diamond market.

Industrial and commercial earnings fell 4 per cent to R1bn, or 34 per cent of the total, from 36 per cent previously, as the group's Mondi subsidiary was hit by weak pulp and paper prices.

The weaker rand buoyed contributions from gold and uranium to R631m, or 15 per cent of earnings, from 9 per cent previously.

Headline earnings from mining finance interests were 28 per cent higher at R988m, after a record performance from Minorco, Anglo's offshore associate.

BUILDING VALUE ON PERFORMANCE

Our achievements in 1996 again reflect confidence in Landesbank Rheinland-Pfalz as a resourceful, reliable banking and finance partner. The year's results also demonstrate sound business policies combined with the entrepreneurial spirit of our staff whose commitment and expertise were decisive for the Bank's continued strong performance.

Group Financial Highlights	1996	1995
Business Volume	DM billion 88.0	76.2
Balance Sheet Total	DM billion 82.0	71.1
Claims on Customers	DM billion 32.4	27.3
Liabilities	DM billion 46.1	42.1
Certificated Liabilities	DM billion 27.1	20.6
Equity Capital	DM billion 2.5	2.3
Operating Income	DM million 279	231
Net Income	DM million 121	114

These figures confirm the overall strategic direction of Landesbank Rheinland-Pfalz to offer its clients and partners the benefits of highly professional service capabilities.

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FINANCIAL TIMES
Financial Publishing

Enel, Enron set to form joint venture

By Paul Betts in Milan

Enel, the Italian state electricity group, yesterday reached a tentative agreement with Enron, the Texas energy group, to form a £6,000bn (\$2.94bn) joint venture to compete in the Italian and European electricity markets when it is deregulated in 1998.

Under a non-binding letter of intent signed between the two groups, Enel plans to transfer a number of electricity generating plants with total capacity of up to 5,000 megawatts into the joint venture.

In turn, Enron Europe will acquire a 50 per cent stake in the new company, giving it access to the Italian power market when it is deregulated in two years as a result of the European Union's electricity liberalisation programme.

The agreement hinges on the Italian government meeting the EU's 1999 electricity deregulation deadline as well as Enron's due diligence process on the plants to be transferred by Enel into the new venture.

Enel has yet to identify these plants, which are expected to involve a combination of single cycle oil and gas fired plants to be upgraded to combined cycle gas fired plants.

The deal is part of a series of joint venture agreements that Enel, the world's second-largest electric utility in terms of installed power, is seeking to put together ahead of electricity deregulation - when it will have to shed 30

per cent of its domestic monopoly.

If finalised, these agreements would enable Enel to realise the value of power assets which it would otherwise be forced to shut down when the domestic market is finally liberalised.

The Enron venture follows a recent deal between Enel and Eni, the Italian oil and gas group, which have agreed to form a joint electricity generating venture to compete in the deregulated market.

The new Enel-Eni joint company will also involve 5,000MW of power plants and investments of about £5,000bn.

Enel and Eni will transfer a number of existing power generating assets into the new company, which the two groups eventually hope to float on the Italian bourse, and possibly on the New York Stock Exchange as well.

The two Italian companies each plan to own eventually a 20 per cent stake in the new company, which they hope will also attract other international energy groups. The US General Electric company is understood to have already shown interest in the Enel-Eni venture.

Enel has also teamed up with Deutsche Telekom to form a joint telecommunications company to compete for the third licence to operate a mobile telephone network in Italy. The joint venture would absorb Enel's extensive in-house fixed-line and mobile telecommunications assets.

Popular capitalism sweeps Portugal

EdP offering has attracted unprecedented demand from the public for shares, writes Peter Wise

Portugal is turning into a nation of shareholders almost overnight as the privatisation of Electricidade de Portugal, the national power utility which is the country's biggest company, stimulates an unprecedented shift of savings out of bank accounts into the stock market.

The government decides tomorrow how much of the company it will sell, and how it will split the issue between retail and institutional investors.

The number of shareholders in the country, which has recently been reclassified as a developed rather than an emerging equity market, is set to jump from about 1 per cent of the population - about 100,000 people - to more than 6 per cent as a result of the EdP initial public offer.

Forecasters estimate the offer will attract more than 800,000 individual shareholders, compared with 88,000 for the country's previous biggest privatisation.

Small savers, mostly newcomers to the stock market, have already placed almost 1.2m orders for more than 3.2bn shares. That is more than enough to buy the entire company five times

over, and more than 40 times the stake that the centre-left Socialist government initially envisaged for retail investors.

"Demand for EdP is a phenomenon that is vastly exceeding the most optimistic expectations of everyone involved," says a London-based broker. "Whether you call it 'popular capitalism' or 'democratic ownership', the government has a success on its hands."

Conditions converging to make the EdP sell-off a record success include a sharp fall in interest rates, the buoyant growth of the Lisbon stock market, strong gains made by shares from previous IPOs, the country's reclassification as a developed market, and a big offering of a sound company at an attractive price.

Interest rates on bank deposits have fallen from more than 14 per cent in 1991 to about 4 per cent - less than the average dividend yield of 5 per cent forecast for EdP. On top of this, analysts expect EdP shares to perform solidly, with some forecasting a gain of between 10 per cent and 30 per cent in the first day of trading.

The price range of EdP, £50-£55 a share, at the lower end of expectations, has also helped lift demand, and values the company at £1,050bn-£1,305bn (\$6.1bn-\$7.9bn). The final price is to be announced on June 18.



EdP certainly looks to be an attractive investment. It operates Portugal's national power grid and accounts for 92 per cent of generating capacity and 97 per cent of distribution.

Its strong profit growth is mainly a result of a big drop in the cost of servicing its accumulated debt, which fell by £9.5bn in 1996 to £883.1bn, accompanied by

growing demand for electricity, which is forecast to increase by 4.5 per cent a year to 2000.

However, the unparalleled level of demand for EdP shares has placed the government under pressure.

Although authorised to sell up to 49 per cent of the company, the government wants to limit the IPO to about 27.5 per cent of EdP's total capital and sell the remainder in a secondary offering in 1998. By this time, the shares are forecast to have risen considerably.

EdP chairman, is known to favour limiting the size of the IPO to maximise revenue from the secondary offering.

But the main centre-right opposition party, sensing Portugal's share-buying fever, is pressing for the privatisation of a larger stake now and to enlarge the tranche for Portugal's small savers - not initially expected to exceed 50 per cent of the offer - at the expense of foreign institutions.

Institutional demand through a book-building process is also strong, not only from financial investors but also from Endesa, Iberdrola

and Union Fenosa - Spain's three biggest power companies - and possibly other European electricity groups.

Global co-ordinators are ABN Amro Rothschild, Goldman Sachs and Banco Português de Investimento.

A number of analysts expect the government to compromise by expanding the initial sell-off to a little more than 30 per cent of EdP's total capital of 600,000m shares.

One inevitable consequence is that a large number of small investors will be disappointed. Bankers are forecasting most will receive only five to 10 shares for every 100 they order. This has led many to register for more than they intend or can afford to buy - but bank credit is readily available for purchasing EdP shares.

"The unprecedented demand is a sign of the growing maturity of Portuguese investors and their faith in the country's economic stability," says one Lisbon banker. "Because interest rates have fallen to an all-time low - below those of the US or the UK - people are moving their savings out of banks deposits into equity by investing in a solid company."

Carlsberg lifted by sharp rise in financial income

By Hilary Barnes in Copenhagen

A sharp increase in net financial income boosted first-half pre-tax profits at Carlsberg, the Danish brewery group, from Dkr741m last time to Dkr870m (\$132m) in the six months ended March 31.

Operating profits were flat, rising only Dkr2m to Dkr532m, but financial income increased from Dkr211m to Dkr338m, reflecting strong bond and equity markets.

Sales were ahead 8 per cent, from Dkr8.53bn to Dkr9.21bn, attributed primarily to the appreciation of sterling against the Danish krone and to the inclusion of 50 per cent of Sweden's Falco Breweries, against 30 per cent last time.

Investors were unimpressed by underlying performance, however. Carlsberg shares closed at Dkr388.00, down Dkr7 from Monday's close and off an earlier high of Dkr399.

Mr Flemming Lindelov, reporting for the first time

since his appointment as chief executive at the beginning of the year, said full-year pre-tax profits were expected to be "almost" level with last year's Dkr1.57bn.

But two strategic moves were being held up by competition investigations, the company said.

In the UK, the proposed merger between Carlsberg-Tetley, a 50-50 joint venture, and Bass, the UK leisure group, is on hold while the new Labour government considers whether to approve the agreement.

But Carlsberg said it was satisfied with the performance of its operations in the UK given the uncertainty among employees and customers caused by the authorities' long investigation.

In Sweden, a proposed joint venture between Carlsberg and Coca-Cola for bottling and distribution of Coca-Cola and other soft drinks, announced on March 4, is being held up by a European Union investigation. The outcome will not be known until September.



Routine maintenance on the jumbo drill rig used in sinking of Freegold 4.

HEADLINE EARNINGS UP BY 23 PER CENT

"A pleasing year with significantly improved headline earnings, further expansion of our operations, and more recently, the completion of major black economic empowerment initiatives."

Julian Ogilvie Thompson, Chairman

- Headline earnings up by 23% to a record R5 015 million (2 144 cents per share) reflecting increased contributions from diamonds, international, gold and coal interests
- Total dividend rises 23% to 700 cents per share
- R4 521 million invested

Notice of dividend

Dividend No. 122 of 540 cents per share has been declared payable on Friday, 25 July 1997 to shareholders registered at the close of business on Friday, 20 June 1997. The register of members will be closed from Saturday, 21 June 1997 to Saturday, 28 June 1997 inclusive. The full conditions relating to the dividend may be inspected at the Johannesburg and London offices of the Corporation and at the offices of its transfer secretaries.

3 June 1997

Extracts from the audited results for the year ended 31 March 1997

(R million - unless otherwise stated)	Year ended 31.3.97	Year ended 31.3.96	% change
Net income before taxation	11 098	7 761	43
Net income after taxation	9 277	6 139	51
Total net earnings	7 106	4 403	61
Headline earnings	5 015	4 077	23
Earnings per share - cents			
- total net earnings	3 037	1 885	61
- headline earnings	2 144	1 746	23
Dividends per share - cents			
- interim	160	130	23
- final	540	440	23
As at 31.3.97		As at 31.3.96	
Net cash resources at 31 March 1997	5 338	4 242	26
Net asset value per share - cents	29 907	29 817	

*After providing for final dividend

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The Annual Report and Chairman's Statement will be posted to shareholders on or about 24 June 1997. Copies of the Corporation's preliminary announcements are available from the London office above. The results will also be available on the Internet at <http://www.aac.co.za>

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NOTICE IS HEREBY GIVEN TO THE BONDHOLDERS that, pursuant to the provisions of the Trust Deed and the Trustee's power under the Trust Deed to cause in modification without the consent of the Bondholders, the Society, the Issuer and the Trustee have entered into a Second Supplemental Trust Deed dated 30th May, 1997 to effect modifications to the provisions of the Trust Deed and the Bonds in accordance with the provisions of the Building Societies Act 1986. The Bonds will continue to be listed on the London Stock Exchange, but as obligations of the Issuer. Any Bondholder who wishes to inspect copies of the Trust Deed or the said Second Supplemental Trust Deed containing such modifications may do so at the specified offices of the Trustee and the Paying Agents listed below:

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COMPANIES AND FINANCE: ASIA-PACIFIC

Thai water utility set for \$50m IPO

By Ted Bardacke in Bangkok

Thailand is set to test the market for water privatisation in Asia this week as East Water, a government subsidiary in charge of water distribution, attempts to become the first private water provider in the region.

The company, which distributes water along the country's industrial eastern seaboard, is launching a public share offering worth at least \$50m.

The issue, underwritten internationally by ABN-Amro Rothschild and domestically by Tisco and

Dhana Siam, takes place amid tough market conditions. With the Thai market down more than 30 per cent this year, only two public offerings were made in the first quarter, compared with 18 in the same period last year.

But the company is seeking to buck that trend and play up its uniqueness in Thailand, where it has a monopoly on wholesale water distribution.

Underwriters are expecting a price of between B25 and B20 a share.

Final pricing will take place next Thursday when the company's

international road show winds up in London.

East Water, owned by the government's Provincial Waterworks Authority, takes water from Thailand's Royal Irrigation Department and supplies it to private industrial estates, corporate clients and the PWA, which retains responsibility for distribution to retail customers.

This reduces East Water's exposure to volatile public opinion over water rates, which has plagued water privatisations in other parts of the world.

But with few assets - the RID controls the water and the Minis-

try of Finance owns most of the pipes - the company's success in implementing its \$50m expansion programme will depend largely on government policy towards the company remaining consistent.

An interim committee on water allocation has recently been set up but it is expected to take several years before it becomes an independent agency.

Mr Wanchai Ghoprasert, President of East Water, said: "There is a real need for a regulator so that people will have their fair share of water at reasonable prices, but also to protect investors. But the Royal

Irrigation Department doesn't give water to anyone else (except East Water) and the lease on the pipes is 30 years. So we have exclusive rights."

Negotiations with the RID on water supply will take place again in 2001. The company believes that by keeping representatives from all the main government agencies dealing with water on its board of directors - Mr Wanchai is also assistant governor of the PWA, which will remain the single largest shareholder in the company - it will be immune to political upheaval.

Assuming the burden of Japanese growth

The corporate sector saw big profit rises last year, but the advance was led by manufacturing

On the surface, the performance of Japanese corporations last year suggests that, for the country's leading companies, things are looking better than they have for years.

The top names, from Toyota to Sony, unveiled strong sales and profits increases, with many companies reporting figures unseen since the bubble of the late 1980s, when surging asset prices fuelled economic growth.

Toyota saw a 14 per cent rise in sales and a 50 per cent increase in net profits in the year to March. Its smaller rival, Honda, posted a 25 per cent jump in sales, trebled pre-tax profits and reported record net profits.

In the electronics sector, both Matsushita and Sony achieved record sales, and even integrated electronics companies - hit by the plunge in semiconductor prices - saw healthy advances. Fujitsu lifted sales 20 per cent, to a new record, while revenues at NEC grew 13 per cent.

The relentless pursuit of excellence - the hallmark of Japan's leading manufacturers - has ensured that at least in those industries where the country is competitive, the dark days following the collapse of Japanese asset prices are fading quickly from the memory.

"The manufacturing sector has basically recovered from the bursting of the bubble," points out Mr Jason James, strategist at HSBC James Capel in Tokyo.

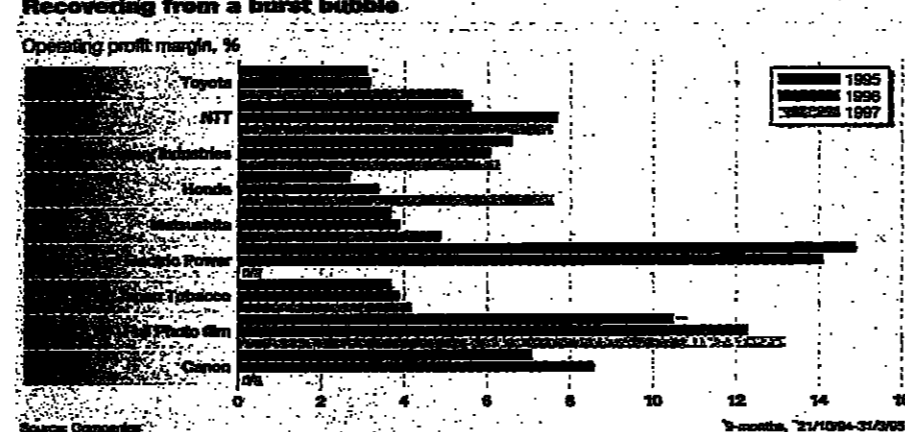
Supported by a 20.2 per cent rise in recurring profits at manufacturing companies listed on the first section of the Tokyo Stock Exchange have risen 15.7 per cent and net profits by 17.1 per cent, according to a recent report by Goldman Sachs in Tokyo.

However, the contrast between the performance of manufacturers, most of which have long been exposed to global competition, and of non-manufacturers, which have been protected by regulation, was underlined by a fall in non-manufacturers' profits of 3.5 per cent.

While financial institutions are still suffering from the asset deflation that has rocked Japan in the past few years, domestically oriented companies in sectors from oil to retailing - sheltered from competition by government regulation - are faced with the unprecedented pressures of deregulation.

The gap in performance suggests the country will again have to rely on its world-beating car makers and electronics companies to

Recovering from a burst bubble



support economic growth until other sectors emerge to assume part of the burden.

Japanese vehicle manufacturers, which enjoyed a windfall from the decline in the yen against the dollar and a domestic retail boom ahead of an increase in consumption tax in April, contributed a full 40 per cent to overall profits growth, notes Ms Kathy Matsui, strategist at Goldman Sachs in Tokyo.

But there are serious doubts as to whether Japan's manufacturers really have achieved the turnaround needed to sustain growth in the longer term.

"The results were better than expected. But while they showed phenomenally

good sales growth on a consolidated basis, operating profit growth was not significantly higher," points out Mr James.

Toyota, for example, just managed to raise its operating profit ratio from 3.2 per cent to 5.4 per cent, while Hitachi's operating profit to sales ratio fell from 4.1 per cent to 3.5 per cent.

Furthermore, while car manufacturers have been impressive in cutting costs, such restructuring contributed Y110bn (\$944m) to the operating profit of Toyota, while the yen's weakness contributed Y240bn. Without the weaker yen, Matsushita's operating profits would

have been Y165bn lower than reported.

Given these factors, "the message of last year's results is that if anything, Japanese companies did not do very well considering how positive the environment was," Mr James says.

Moreover, the favourable environment is not expected to last. "The implication is that there is going to be quite a sharp slowdown in this fiscal year," he notes.

Car manufacturers are bracing themselves for a significant drop in domestic demand this year in reaction to the spring buying spree. In addition, capital investment by the telecommunications sector, which has been a big contributor to overall

private capital spending, will slow this year at a time when public spending is being cut back, says Ms Matsui. While the telecoms industry is still expected to grow, fierce competition in the wake of deregulation may undermine profitability.

With the yen significantly below the level at which many Japanese exporters can turn a profit, there is also concern that many companies, having restructured their operations to beat the impact of a strong yen two to four years ago, are now beginning to relax their grip.

"Employment is picking up and growth in bonuses has picked up at a time when pension and welfare expenses are growing," Mr James says. "Wage costs are going to be a continuing problem."

The hope is that new engines of economic growth can emerge in time to ease the transition from an economy dependent on manufacturing industries to one that can count more on services.

Without further restructuring in the meantime, however, the well-being of those companies that are still vital to Japan's economic health may remain at the mercy of forces largely beyond their control.

Michio Nakamoto

Hitachi, AlliedSignal develop new transformer

By Peter Marsh

The cost of electricity for industrial users could be cut by millions of dollars a year as a result of a new type of transformer being developed by Hitachi of Japan and AlliedSignal of the US.

The two are collaborating on making industrial transformers which incorporate a novel energy-saving system that can cut electricity wastage in this type of device by 80 per cent, according to AlliedSignal.

The companies are particularly targeting their system around the world for handling their own electricity supplies.

Transformers use twists of wire wound round metallic "cores" to effect the voltage reduction. While most transformers use a standard core made of steel containing traces of silicon, the Hitachi/AlliedSignal venture is based around a novel amorphous alloy developed by the US company, which it claims has much better electrical properties leading to significant energy savings.

Most transformers lose 2.3 per cent of their energy in the core as the voltage is altered. However, AlliedSignal says that its amorphous alloy core - based on a mixture of steel, boron and silicon, made using a process akin to glass manufacturing - can cut these losses to 1.2 per cent.

Hitachi, one of the world's biggest makers of transformers and related electrical systems, has started making the new devices at a plant in Nakajo City in Japan, using supplies of alloy made by

AlliedSignal in the US.

Hitachi said that it was planning a "strong relationship" with AlliedSignal over buying the material on a long-term basis. It has spent about Y10bn (\$86m) since 1991 on developing the new transformers, which are based on an earlier type of transformer using the new material and which has been used by some electricity utilities.

The new transformers will be 15-25 per cent more expensive than conventional systems based on steel with

added silicon, but according to the US company will pay for themselves in three years - roughly one-third of their average lifetime - before being replaced.

Other makers of transformers include ABB, the Swiss-Swedish group, General Electric of the US and Japan's Mitsubishi.

Although they have yet to show firm interest in the AlliedSignal product, they may enter into agreements to buy the material from the US company if the promised energy savings materialise.

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CNN, Oracle to offer news on internet

By Louise Kehoe
in San Francisco

Cable News Network will today announce a joint venture with Oracle, the database software company, to create an advanced "personalised" news service on the internet.

The CNN service will be the most sophisticated of its kind, providing users with text, graphics and video news reports according to their individual interests.

Today's launch marks the entry of one of the world's leading news-gathering organisations into personalised news. To date, most such services are focused on business news or more narrowly on news from the computer industry.

Personalised news services are designed to avoid the problems of "information overload" that many internet users suffer by filtering news reports into special interest categories.

Most existing services select articles of interest using key-word search systems, which are prone to error.

It is difficult, for example, to distinguish between articles about soccer and football, since "football" is a different sport in some parts of the world.

The Oracle technology, in contrast, uses linguistic analysis to identify themes and topics among the hundreds of news stories filed by

CNN journalists every day. "Intelligent agents" search for news using over 200,000 "concepts" or topics to ensure that every relevant article is found.

A similar approach is used by individual, one of the current leaders in internet customised news services, which focuses primarily on business news.

The CNN service is distinguished by the breadth and magnitude of its news sources, as well as by its

ability to deliver news to the desktop, said Ms Beatriz Infante, Oracle senior vice-president of internet and media products.

Details of users' news preferences will be stored on central servers, rather than on individuals' PCs, so users will be able to access their personalised news services from any computer.

The CNN interactive service will be aimed at consumers and will include world news, sports and

weather as well as business news. Users will, for example, be able to obtain weather reports from more than 3,600 cities.

Personalised news services are attractive to a advertisers, because they can direct advertisements to people who have expressed interest in a particular topic.

As part of the CNN-Oracle joint venture, Oracle will share in the advertising revenues raised by the CNN internet service.

Telmex gets lion's share of long-distance

By Daniel Dornbey
in Mexico City

Telmex, Mexico's former state telecommunications company, has won the majority share of the country's newly liberalised long-distance services, but lost its claim for full reimbursement of its infrastructure investment that made competition possible.

In an unusual exercise in economic democracy, telephone users in 26 cities voted for their favourite long-distance carrier. Telmex was voted favourite by 53 per cent of the 1.6m users who expressed a preference in Mexico City, by far the most important telecommunications market in the country.

It was followed by 25.6 per cent for Alestra, a joint venture between AT&T, Alfa and Bancomer, and 21 per cent for Avantel, which brings together MCI and Banamex, Mexico's largest bank. The remaining four competitors won less than 1 per cent of the vote.

As only 60 per cent expressed a preference, the other 40 per cent of users will remain with Telmex, giving the group a 70 per cent market share measured by lines, according to Ms Sari Mayer, an analyst at Salomon Brothers in New York.

Alestra claims it is ahead in the national race among the new operators, having won 830,000 of the 5.5m lines opened to competition so far. Avantel, which has been plagued by arguments with Telmex over the supply of equipment, is third. Another 900,000 lines in 34 cities will be opened to competition later this year.

However, Mexico's Federal Telecommunications Commission ruled that long-distance licence holders must pay \$423m to Telmex over the next seven years, to refund its investment in the long-distance network.

Telmex had claimed more than \$550m, but the commission said \$200m of that had been carried out for its own purposes.

Hollinger carries out redesign at Southam

Conrad Black's group has pushed through radical changes at Canada's biggest newspaper chain

Little love was lost between Mr Conrad Black and Southam when Mr Black's Hollinger group bought control of Canada's biggest newspaper chain last year.

Mr Black, whose other interests include the UK's Telegraph group, the Chicago Sun-Times and the Jerusalem Post, described Southam as a cesspool of "factional strife, impetuous diversification initiatives, rather mediocre editorial products, and all the general problems of the newspaper industry".

Southam's 1996 annual meeting was marked by caustic exchanges between Mr Black and a union representative concerned that the company's 32 newspapers would become vehicles for Mr Black's conservative views, and victims of cost-cutting and mass redundancies.

The same union official grudgingly acknowledged at this year's annual meeting in early May that life under Hollinger was not as bad as feared - though he nonetheless complained that homogeneous right-of-centre views had become the order of the day in Southam papers.

Southam's new proprietors also appear satisfied with their purchase. Hollinger recently offered to buy out the 49.5 per cent it does not own for cash and shares worth C\$23.50 a share, or a total of C\$823m (US\$710m).

According to one former director, Mr Black earlier vowed he would never pay more than C\$30 a share for Southam.

A committee of independent directors has hired RBC Dominion Securities to carry out its own valuation. Shareholders are due to vote on the offer on June 18.

However, pressure has been growing on Hollinger to improve the terms. A block of almost 10 per cent of the shares outstanding changed hands recently.

One theory was that a large institutional shareholder sold to a US arbitrage house. "If that's true, it's unlikely that C\$23.50 will be the accepted bid," says one Toronto analyst, who describes Hollinger's offer as "light" to the tune of between C\$1 and \$1.50 a share. Mr Black said last week that Hollinger might be willing to improve the cash component of its offer without increasing the total amount.

Southam was for many years controlled by one of Toronto's blue-blooded business families. It went through a turbulent period in the late 1980s and early 1990s, when the board thwarted potential predators by exchanging large reciprocal shareholdings with Torstar, publisher of the Toronto Star, Canada's biggest daily. Hollinger gained its first foothold by buying Torstar's stake in 1992.

By common consent, the



Conrad Black's reputation precedes him, but fears have been unfounded

chain badly needed some fresh air. The publishers (chief executives) and editors of its flagship newspapers - which include the Montreal Gazette, the Ottawa Citizen and the Vancouver Sun - ran mini-fiefdoms with little control from head office. Labour relations, especially in Vancouver, were dismal. Heavy capital losses in 1991 and 1992 from the disposal of non-newspaper businesses wiped out retained earnings.

Hollinger and Power Corporation, the Montreal-based conglomerate, gained joint control in 1993. According to one analyst, Southam then began moving in the right

direction, although the changes weren't aggressive or quick enough.

The pace has accelerated markedly since Mr Black took the helm in early 1996. Mr Dan Colson, the Telegraph's chief executive who devotes a growing part of his time to Southam, says: "We've started to deal with some of the problems, and we'll get most if not all of them right." Many of the lessons Mr Colson has learned over the past decade in London are likely to be applied in Toronto.

Virtually the entire Southam board, as well as the

chief executive and chief financial officer, have left over the past year. Publishers and editors of several papers have been replaced.

The papers themselves have also undergone radical changes. The Ottawa Citizen and Montreal Gazette, both with new editors, have been redesigned. The Citizen is virtually a new paper, with longer, more serious stories, and greater emphasis on national and international news and analysis.

Smaller papers have put stronger emphasis on local coverage. "We have to be very, very strong in our communities," says Mr Kirk Lapointe, editor of The Spec-

tator in Hamilton, Ontario.

The Spectator now devotes a full page each day to a local feature. With an eye on Hamilton's large ethnic community, the paper carries a daily column of stories from foreign papers and news agencies, many of them gleaned from the internet. All Southam papers are being encouraged to draw on each other's news-gathering resources.

Southam's financial performance has improved markedly in the past year. First-quarter earnings, published in mid-May, jumped to C\$18m, or 23 cents a share, from C\$2.4m, or 3 cents, a year earlier. Operating cash flow - which Hollinger is eager to lay its hands on - more than doubled to C\$33.8m. Advertising revenues grew 6.8 per cent and circulation revenues were 2.3 per cent higher on a same-paper basis. One analyst notes, however, that much of the improvement was due to lower newspaper prices.

Southam has also begun to spread its wings, buying more than a dozen papers since Mr Black took over.

Mr Don Brander, publisher of The Guardian, a small daily in Charlottetown, Prince Edward Island, and one of last year's acquisitions, says his experience has been "nothing but positive. It's been pretty much [a case of] running your own business."

Bernard Simon

High-tech stocks under pressure

By Louise Kehoe

Intel's share price continued to fall yesterday in the wake of the semiconductor industry leader's warning last week that revenues and profits would not meet Wall Street expectations in the current quarter.

At a meeting with financial analysts in New York yesterday, Mr Andrew Grove, Intel chairman and chief executive, said the company was going through a "monumental" transition to a new generation of microprocessor chips. By the fourth quarter, 90 per cent of Intel's microprocessor revenues would come from new

products launched this year. Mr Grove said he could add nothing to the profit warning issued on Friday, but remained "extremely bullish" on the personal computer industry.

Intel was trading at \$146½ early yesterday, down 3½% from Monday's close. On Monday, Intel dropped 4½%.

Profit warnings late on Monday from Seagate Technology, the manufacturer of PC disk drives, and from Cabletron, a computer networking equipment maker, added pressure to high technology stocks.

Seagate fell 3½% to \$39½, while Cabletron lost almost one-third, down \$15 to \$30½.

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COMPANIES AND FINANCE: THE AMERICAS

Hilton's interest in ITT wanes

By Richard Tomkins
in New York

Hilton Hotels, waging a \$6.5bn hostile bid battle for the rival ITT hotel and casino group, yesterday showed signs of losing interest in the fight after it emerged that ITT was entertaining offers for some of its prime hotels.

"It's just another sign of an entrenched management that is willing to destroy assets and destroy shareholder value in order to keep their jobs," Hilton said of the plan.

"We went into this primarily because there's a good portfolio of owned hotel assets, so to the extent that they destroy those assets, it does damage our interest proportionately."

ITT, which has realised nearly \$2bn over the last few months by selling non-core assets, is understood to have received offers for some of its most luxurious hotel properties, including the St Regis in New York and the Phoenix resort in Scottsdale, Arizona.

Last month, ITT sold five relatively minor hotels in

the US to FelCor Suites Hotels for \$300m, agreeing to manage them under contract instead.

It said it wanted to concentrate its resources on its prime hotels in destination cities - the hotels that Hilton wants.

ITT is now considering a deal under which it would sell some of these prime hotels but continue to manage them under contracts with their new owners.

The management contracts would become void if ITT were taken over - so creating a form of "poison

pill" defence against Hilton's bid.

ITT says only 65 of the 425 properties in the ITT Sheraton chain are wholly owned, with another 28 held by joint ventures and the rest either managed under contract or franchised; so it is unimportant if one or two fewer are wholly owned.

Hilton said yesterday its aim in trying to acquire ITT had been to achieve "a couple of very big steps along the road" towards its growth objectives.

"It's a road we will travel in any case, so ITT was one

means to an end," it said.

"We are going to have to see what the company looks like at the end of the day and that obviously has an impact on the price we are willing to pay. So to the extent that they are destroying value in their company, that is a major disservice to their shareholders," Hilton said.

ITT's shares were down 5% at \$59 in early New York trading yesterday, narrowing the premium to Hilton's \$55-a-share offer price. Hilton's were unchanged at \$28.

US care groups in \$400m merger

By Tracy Corrigan
in New York

Humana, the US managed care provider, has agreed to buy Physician Corporation of America (PCA) in a deal valued at about \$400m. As part of the cash offer of \$7 per share, Humana will take on \$130m in debt.

Kentucky-based Humana said it would have about 6m members and annual premiums of \$8bn after the merger, making it one of the largest managed-healthcare companies in the US.

PCA provides healthcare services through health maintenance organisations in Florida, Texas and Puerto Rico, and has 1.15m members, including company and individual beneficiaries.

The acquisition will also bring Humana almost 600,000 Medicaid members, whose healthcare costs are paid under government programmes.

Humana believes that "it will now be well positioned in the Medicaid market as federal and state governments continue to turn to the private sector to improve the quality and efficiency of government-funded medical programmes."

"This acquisition represents a compelling strategic opportunity that strengthens our competitive position in Florida and Texas, with all of the critical mass and purchasing power that is absolutely crucial for long-term leadership in our industry," said Mr David Jones, Humana's chairman and chief executive officer.

In connection with the merger, PCA said it would purchase a reinsurance policy to cover the financial difficulties of PCA Property & Casualty Insurance Company, its workers' compensation subsidiary, and would record a \$4m charge to reflect a deposit.

Humana shares rose 3% to \$24, after the announcement, while PCA jumped 5% to 6%.

AMERICAS NEWS DIGEST

Antioco hired by Blockbuster

Viacom has hired Mr John Antioco, a seasoned convenience store and fast food restaurant executive, to restore the fortunes of its troubled Blockbuster video and music stores. He succeeds Mr Bill Fields, former head of stores operations for Wal-Mart, the world's biggest mass-market retailer, who left Viacom last month after a year on the job, accompanied by a warning of a sharp decline in Blockbuster's cash flow.

Mr Antioco, 47, is credited with leading the Circle K chain out of Chapter 11 protection from bankruptcy, and was hired last October by PepsiCo to perk up the lacklustre performance of its Taco Bell group of Mexican fast food outlets. He leaves PepsiCo during a deep-seated restructuring which includes a plan to spin off fast food operations Taco Bell, Pizza Hut and the KFC fried chicken brand into a separate company.

Mr Antioco joins Blockbuster at a time when the US video rental market is showing signs of recovery. According to a fresh study, the weakness in the first quarter stemmed from a lack of releases of popular films for home video viewing. Alexander & Associates, the research firm, said first-quarter introductions this year included only eight films that had grossed more than \$30m at the US box office, compared with 17 in the comparable equivalent period of 1996.

Christopher Parkes, Los Angeles

Bristol-Myers buys rights

Bristol-Myers Squibb, the US healthcare company, has acquired worldwide development and marketing rights for two protease inhibitor compounds being developed to treat HIV and AIDS, from Novartis for an undisclosed sum. The treatment of HIV and AIDS with nucleoside analogues - such as Bristol-Myers' Zidovudine and Zalcitabine - has been found to have greater efficacy when used in conjunction with protease inhibitors. Four such treatments, including Abbott's Norvir and Merck's Crixivan, are already on the market.

One of the two compounds acquired from Novartis is in clinical trials and the other is still in the early stages of preclinical development.

Tracy Corrigan, New York

Messer expands in Venezuela

Hoechst, the German chemicals and pharmaceuticals company, plans to expand its industrial gas and welding supplies operations in Venezuela through Messer, its Venezuelan subsidiary. Messer, which has been operating in Venezuela for 25 years and leads the welding supplies market, will invest \$122m over the next two to three years to expand its distribution network, and set up a greenfield hydrogen and ASU plant, and a 200-tonne carbonic gas plant to supply the food, chemical, and petrochemical industries.

Messer recently acquired Gases Mérica, a gas separation plant in western Venezuela, for an estimated \$2m-\$3m. Mr José Luis Padrón, president of Messer Gases de Venezuela, said the company was also interested in acquiring the gas plants of Siderúrgica del Orinoco (Sidor), a steel company which is part of CVG, the state-owned industrial complex slated for privatisation later this year.

Messer has been negotiating with several of the 11 consortia that have pre-qualified to bid for Sidor.

The Venezuelan expansion plan is part of Messer's broader strategy of increasing its operations in Latin America through a \$500m investment package.

Raymond Collitt, Venezuela

Innovative plans in the pipeline

TransCanada's chief executive is credited with introducing long-term vision

From his office high above the streets of downtown Calgary, Mr George Watson can see far into the distance.

It is an appropriate setting for the chief executive officer of TransCanada Pipelines, whose long-term vision has transformed the once-staid utilities company into a diverse and expansive integrated energy company.

Mr Watson, sharp, energetic and personable, has led the company into non-regulated businesses by processing and marketing energy, a move that complements its core natural gas transportation operations.

TransCanada is looking closely at natural gas-fired fuel cells, cutting-edge technology that could reshape the auto industry. And with four electrical generating plants already in operation, Mr Watson plans to build many more small plants along its pipeline network.

Analysts give him top marks for transforming TransCanada, which last year reported after-tax profits of C\$425m (US\$327m) on assets of C\$12.6bn. CEO since 1994, Mr Watson has moved the company into the international arena and brought to it an aggressive, entrepreneurial spirit which is slowly filtering through the ranks.

Analysts point to the company's acquisition of several



small natural gas marketing companies that instantly brought qualified, market-oriented personnel to the group.

"The toughest thing to do is change the culture. To have the vision is one thing, to enact it is difficult," Mr Watson says.

Diversification appears to be paying off. The company is forecasting net profits from energy marketing operations will jump to about C\$40m this year, up more than 40 per cent over 1996.

Similarly, TransCanada's natural gas processing and power generation division should net C\$75m in profits this year, an 80 per cent increase compared with last year. International operations are expected this year to return a small net profit,

the first registered by the division.

But TransCanada remains primarily a pipeline company, with transmission profits expected once again to top C\$300m this year. And its pipeline division that must contend with the largest competitive challenge facing the company, the Alliance pipeline.

Alliance, a limited partnership among 17 companies, primarily oil and gas producers, has proposed a C\$3.7bn natural gas pipeline from British Columbia to Chicago.

That will put Alliance in direct competition with TransCanada, which has announced a two-stage project to add an equal amount of capacity to its Canadian mainline, stretching from

Alberta to north-eastern US markets. Industry insiders and analysts agree there isn't enough demand to build two pipelines.

TransCanada has secured commitments from suppliers that enable it to proceed with the first expansion phase, but it is not clear the company has sufficient support for the second stage slated for completion in 1999.

Alliance, on the other hand, has so far secured 15-year contracts to transport an amount equal to about 80 per cent of its pipeline's capacity.

Short-term overcapacity is a potential problem should the two projects go ahead, but it is not clear who will blink first.

Analysts point out it was TransCanada which brought

the challenge upon itself by failing to respond quickly to a surge in natural gas supply.

The company was reluctant to commit itself to a long-term project in an era of short-term contracts, giving Alliance the opening it needed to proceed with its project.

"We've been a little laggardly, a little too cautious," Mr Watson acknowledges.

He is determined to avoid the same mistakes overseas. Earlier this year the company became the first private concern to win a natural gas pipeline contract in newly deregulated Mexico.

TransCanada also has projects in Indonesia, Tanzania and Thailand, though Mr Watson sees the largest potential in Colombia, Mexico, Peru and Venezuela, where recent regulatory reforms have opened their energy sectors to international investment.

Global expansion has been at times a trying experience for TransCanada, but management has learnt that arriving first to establish long-standing relationships is key to doing business in developing countries.

And company watchers agree that Mr Watson learns his lessons well.

Scott Morrison

TEGE SA
NOTICE
Shareholders are invited to attend the
ANNUAL GENERAL MEETING
of TEGE SA
to be held on
Friday, 20 June 1997 at 10.00 am at the
Conference Centre, Hotel Royal Plaza Intercontinental
Grand Rue 97, 1820 Montreux, Switzerland

The Annual Report, Auditors' Report and Annual Group Accounts will be available to shareholders from the TEGE SA offices, Switzerland from 28 May 1997. A copy of these reports will be sent to shareholders, free of charge, on request.

Entry to the Annual General Meeting will be permitted only on presentation of share certificates or a bank confirmation stating the number of shares held. Alternatively, a confirmation may be sent in advance to the TEGE offices, to arrive no later than Friday, 13 June 1997, in order that Admission Certificates may be despatched to shareholders by return post.

The reception area will be open from 09.30 am to 09.55 am. Admission certificates and ballot papers will be distributed during this period. The doors of the Conference Centre will close punctually at 10.00 am. Shareholders are invited to join us for cocktails and canapés after the meeting.

For the Board of Directors
Jacques Hennessy
Chairman

For more information please contact Miss Helena Kyriakides
TEGE SA Registered Office: c/o Notary Pascal Pittet, Rue du Théâtre 3,
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Payments of principal will be made on or after the Redemption Date at the specified office of any of the Paying Agents listed below against surrender of the Notes together with all unremitted Coupons. Coupon No 1 maturing on the 6th June 1997 should be presented for payment in the usual manner in respect of the interest payment due on that day but otherwise interest will cease to accrue on the Notes from the Redemption Date. Unremitted Coupons shall become void and no payment shall be made in respect thereof.

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Next payment date : December 1, 1997
Coupon rate : 9

Amount :
FRF 943.16 for the denomination of FRF 100 000
FRF 9 431.57 for the denomination of FRF 100 000

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DUE SEPTEMBER 2003
ISIN CODE : XS0044791738

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Next payment date : September 01, 1997
Coupon rate : 13

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FRF 2 603.07 for the denomination of FRF 100 000
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COMPANIES AND FINANCE: UK

Amstrad planning to break itself up

By Clay Harris

Amstrad, the company whose marketing skills dominated UK consumer electronics in the 1980s, plans to break itself up. It will return £200m (£200m) in cash to investors and give them shares in two separate companies.

Mr Alan Sugar, Amstrad's founder and chairman, will raise at least £50m from the break-up and retain stakes in Betacom, the quoted consumer electronics group, and in Viglen Technology, Am-

trad's personal computer manufacturing and direct sales subsidiary, which will seek its own listing.

The break-up marks the latest stage in the tumultuous 29-year history of Amstrad, the company more responsible than any other in bringing computers into British homes.

In its heyday, moreover, Amstrad caught - and created - successive waves of consumer electronic fads, from "racked tower" music systems to citizen band radios to satellite television

dishes. It pioneered market-led design and cost-efficient procurement from Asia.

But Amstrad was not always nimble enough to keep ahead of much larger companies.

Mr Sugar recruited, but then lost, a number of key executives. A proposed takeover by Psion, the electronic personal organiser group, foundered last summer.

Mr Sugar will remain chairman of Betacom, of which Amstrad owns 70 per cent. It recently bought the rump of Amstrad's original

consumer electronics business, whose brand names also include Sinclair and Fidelity. Mr Sugar compared Betacom yesterday to Amstrad at a very early stage.

His role at Viglen will be less active, as a non-executive director. Mr Sugar noted that Viglen had been independently managed since Amstrad bought it in 1994.

Amstrad shares closed 13½p higher at 277p, among some uncertainty of how to value the complex demerger package.

For each share in Am-

trad, investors will receive one share in Viglen, which is expected to be listed in August, and a pro rata distribution of Amstrad's shares in Betacom.

The formula would leave Mr Sugar owning 24.5 per cent of Betacom and 35 per cent of Viglen. His intentions concerning the holdings will be announced later this week. Any change is likely to follow the pattern of his management roles, increasing his stake in Betacom, up to a maximum of 29.9 per cent, at the expense

of his Viglen holding. Shareholders will receive loan notes worth 163p per share, exchangeable for cash from next March. This portion alone is worth more than Mr Sugar's offer to take the company private, which was rejected by shareholders in December 1992.

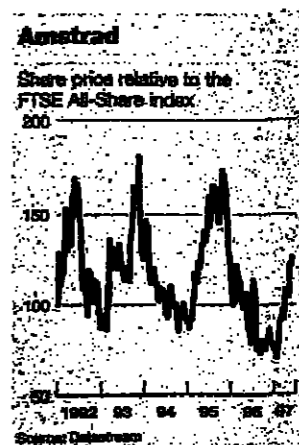
Investors will also get "litigation vouchers", novel instruments entitling them to share in any awards arising from law suits against two suppliers. Estimates of their potential value range up to 110p per share.

LEX COMMENT

Amstrad

Amstrad has been through multiple gyrations over the past five years; now it is almost back where it began. A mobile communications business, Dancall, has been bought and sold; a computer business, Viglen, has been acquired and is being demerged; and the consumer electronics business, Amstrad's old core now summed within Betacom, is still struggling. Shareholders who rejected Mr Alan Sugar's bid to take the company private at the end of 1992 have seen their investment outperform modestly, but this is largely due to the fact that Amstrad's legal actions against US computer disc suppliers are bearing fruit.

Amstrad's break-up plan is logical enough and should deliver shareholders further returns. The current share price of 276p is near the bottom end of the valuation range for Amstrad's package of goodies. The value of two elements of the package are clear: the 163p in cash for each Amstrad share; and Betacom shares with a market value of 24p. The value of the other elements is less certain. Viglen's revenues may be growing rapidly but, with its margins under pressure, the profits outlook is fairly flat. Valued on a conservative 10 times historic earnings, it would be worth 60p for each Amstrad share; an optimistic multiple of 15 would give 90p. Litigation could bring in anything between nothing and 115p after-tax. Such calculations produce a valuation of 247p-302p for the total package, with the best bet probably in the middle.



Dairy Crest hits out at Milk Marque

By Alison Maitland

Dairy Crest, one of the UK's three largest milk buyers, has sharply criticised Milk Marque, the sellers' co-operative, for seeking to process its surplus milk into butter and skimmed milk powder.

The company, which yesterday unveiled a 13 per cent rise in pre-tax profits after exceptional results in its first full-year since flotation, said Milk Marque's processing tenders raised competition issues and it should instead cut prices.

Mr Mike Dowdall, chairman, said: "They're looking at every way they can find to prop themselves up, other than by clearing the market by means of price. They're talking about using some of the best milk in England and Wales to make bog standard ingredients with no added value."

Milk Marque, a farmers' co-operative controlling about 55 per cent of milk supplies in England and Wales, last month invited dairy companies to tender to process 900,000 litres of milk a day during the summer. The surplus arose after it sold only 75 per cent of the milk on offer from April 1.

The Dairy Industry Federation, representing proces-

sors, has complained to the Office of Fair Trading, saying Milk Marque's move is a distortion of the market.

Dairy Crest's pre-tax profits to the end of March rose to a pro forma £35.5m (£57.9m) against a similarly adjusted £31.5m, after a \$900,000 exceptional charge for flotation costs. Sales from continuing operations rose 3.7 per cent to £766.9m.

Strong growth in mature and farmhouse cheddar cheese sales fuelled a 41 per cent rise in consumer foods operating profits to £26.7m, including a full year from the Mendip cheese acquisition, said Mr John Houlston, chief executive.

But ingredients suffered a £4m loss - £1m more than expected - because of adverse foreign exchange movements, which depressed butter and powder prices.

Doorstep milk sales fell 12 per cent, but selective price rises and cost savings pushed up profitability. Supermarket milk sales, growing at only 7 per cent against 13 per cent previously, also increased profits despite fierce competition.

A final dividend of 6.64p, makes a notional total of 9.9p (8.1p), payable from normalised earnings of 22.4p (19.1p).



Chris Gent: the group had achieved good subscriber growth in the US

US growth at Vodafone

By Alan Cane

The international operations of Vodafone, the UK's largest mobile phone operator, moved into the black for the first time last year, contributing £10.5m to record profits of £539m (£578m).

After allowing for profits of £26m on the disposal of fixed assets, the results were in line with market expectations and the shares held firm at 271½p.

Mr Chris Gent, chief executive, said the group had achieved good subscriber growth in the US and extended its lead in digital services. "We sustained our leadership as the best quality network. For the first time our international

operations, taken as a whole, achieved an operating profit and customer growth overseas exceeded that in the UK."

Profits before tax came in 13 per cent ahead at £539m (£474m), while revenues moved ahead 25 per cent to £1.75m (£1.4m).

The group now has over 4m customers worldwide, double the number from a year ago. Mr Gent said the group was no longer seeking new licences overseas but looking forward to strong profits growth from its existing spread of investments.

The group holds a 16.1 per cent stake in the French operator SFR with an option, which is likely to be taken up, to increase its sharehold-

ing by the end of the year.

In Germany, however, despite strong market growth, the performance of E-Plus Mobilfunk was disappointing. Start-up losses are expected to continue into 1997-98.

Vodafone now has more subscribers on its digital network in the UK than on analogue networks.

Mr Gent said he expected a modest decline in operating margins in the UK as a result of an increased presence in the lower margin distribution business and increased competition.

Average revenue per customer for the year was £427 - £558 for digital subscribers and £353 for customers on analogue networks.

MEPC to invest £470m

By Virginia Marsh

MEPC, the UK's third largest property company, plans to invest £470m (£766m) in property over the next four years, including £164m in the second half of this year.

The majority of the investment would be in the buoyant UK market, it said yesterday, as it announced interim results showing a near 5 per cent rise in pre-tax profits, before exceptional gains on disposals, to £54.9m.

It aims to increase the share of retail and leisure in its £3.3bn portfolio from about 43 per cent to closer to 50 per cent, and that of industrial property from about 11 per cent to up to 20 per cent. This would be at the expense of office property which, at present, is the largest segment.

The move is part of a lengthy refocusing of the group, which received a merger approach from Ham-merson, its smaller rival, earlier this year.

The £54.9m profit figure was struck before a £73.2m charge related to the cancellation of sterling fixed interest rate swaps in April, and before net gains on disposals of £10.6m (£5.1m). MEPC made disposals of £119m and acquisitions of £51m in the six months to March 31.

Philippine Gold to list in Toronto

By Kenneth Gooding, Mining Correspondent

At a stormy annual meeting yesterday, shareholders in Philippine Gold, at present quoted on London's Alternative Investment Market, were told that it hopes to be listed on the Toronto stock exchange during October in order to improve its rating with investors.

Mr Michael Werner, the new chief executive, also revealed that at the time of the Toronto listing the company would raise another \$30m (£15.4m) in new equity.

The board was heavily criticised by one substantial shareholder for letting market rating fall far behind

those of comparable companies. Mr Werner previously had pointed out that PG was trading at the equivalent of \$8.54 per ounce of gold resources compared with \$85 for similar companies.

Mr Blake Joyner, managing director of the Chicago-based Solonion Fund, said the 75 per cent drop in PG's share price in the past year meant the value of his investors' holdings had fallen by \$1m. The board had not done nearly enough to promote PG's "world-class assets" and to ensure there was a liquid market in its shares.

Mr Werner said that most of the board members would be changed at the time of the Toronto listing.



You'd be surprised what we got up to at the Barbican. Only last month, the 'Godfather of world music' seduced a packed hall with his first Sitar concerto. The night proved once again that the LSO has few inhibitions. We often introduce an unusual note into our repertoire. Next month for instance, we'll be playing a piece written 20 years ago for Broadway but never performed in concert. If we're broad-minded about what we do, we're equally enlightened about where we do it. We've performed in venues ranging from Liverpool Street Station to the Alhambra gardens, Granada. Of course we wouldn't get far without our sponsors, which is where you might like to come in. Talk to Motra Bennett on 0171 588 1116. Whatever part you play, we're sure the audience will get quite carried away.



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NOTICE IS HEREBY GIVEN that as a result of the distribution of 29,735,511 common shares of U-Ming Marine Transport Corporation (the "Company") in the form of Stock Dividends for the year 1996, the conversion price of the Convertible Bonds will be adjusted, in accordance with Section 6.2 of the Indenture dated February 7, 1994, from NT \$23 to NT \$23 with effect from June 21, 1997, the ex-dividend record date. Pursuant to 6(A)(i) of the Terms and Conditions of the Offering Circular, the Conversion Right shall be suspended from June 17 to June 21, 1997.

June 4, 1997

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Notice of Ordinary Resolution of Shareholders

NOTICE IS HEREBY GIVEN that the proposed Ordinary Resolution published in this newspaper on May 29th, 1997, shall be put to a meeting of Shareholders held on May 30th, 1997. Shareholders with any questions regarding this notice are advised to contact Banque Paribas Luxembourg, size Dept. Operations de Marché, at 100 Boulevard Royal, L-1005 Luxembourg, or the Company at its offices located at Aldea Moravia de Jure 406, (1107) Buenos Aires, Argentina.

Dated 28th May 1997

Given by: The Board of Directors of Compania General de Combustibles S.A.

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FRF 500 000 000 REPUBLICAN FLOATING RATE NOTES
DUE JUNE 2003

ISIN CODE: XS0643249960

For the period June 02, 1997 to September 01, 1997
The new rate has been fixed at 11.5478% p.a.

Next payment date: September 01, 1997

Coupon at: 14

Amounts:

FRF 2 919.04 for the denomination of FRF 100 000

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COMPANIES AND FINANCE: UK

Racal makes a further profit warning

By Christopher Price

Racal Electronics yesterday issued its third profits warning in six months, announcing 1,000 job losses and appointed advisers to help it decide its long-term future.

The hiring of the specialists, who will advise on the future of the data products business and the telecoms network services, prompted renewed speculation among analysts that Racal would be broken up. Sir Ernest Har-

risson, chairman, denied this. "We are not hoisting a for sale sign over the group. The best way to improve shareholder value is to grow the business and that's what we intend to do," he said.

The announcements came as the defence and electronics group unveiled a 43 per cent fall in pre-tax profits from £70.4m to £40.4m (£65.9m) in the year to March 31. The figures reflect hefty provisions at Racal's loss-making data products busi-

ness. Operating profits from continuing operations rose 6 per cent to £78.9m on sales 14 per cent higher at £1.14bn.

The job losses would come from across the group's businesses and its 15,000-strong workforce. Redundancy and reorganisation costs this year would amount to about £14m, which would adversely affect first half profitability. However, Mr David Elsbury, chief executive, said 1997-98 pre-tax profits would beat this year's

£40.4m. Analysts forecasts are bunched around £45m.

Sir Ernest, 70, said Racal is examining a variety of options for its three core businesses, which also include defence electronics.

Attention to the Florida-based Data products, which lost £19.1m during the year, remains a priority. Options here include a management buy-out, flotation on Nasdaq, or an alliance. The division, the subject of Racal's last profits warning in April, has

introduced new products in an attempt to improve margins. Sir Ernest, insisted that he would "be at the helm of Racal to see this job through". But I hope it is done quickly because I would like an early retirement.

Racal is also seeking a partner for its telecoms services division, arguing that a tie-up with a global company in this sector would give it access to lucrative international traffic, as well as fresh

sources of capital. Partnerships and alliances would continue to be sought in the group's defence electronics business. Poor trading in the radio business, which prompted December's warning, was continuing with the group warning of rationalisation of the division over the next 18 months.

A review of Racal's other businesses, including its energy division, was also being undertaken with a view to investment or sale.

National Grid policy change

By Simon Holberton

National Grid, the electricity transmission company for England and Wales, yesterday signalled its determination to hold on to Energis, its telecommunications company, which it previously said it planned to sell.

Mr David Jones, group chief executive, confirming the change in policy, said Energis had successfully developed in the past year through a series of commercial business arrangements with other telecommunications companies. "The value in the business is clearly increasing," he said. "That will continue with the commercial relationships."



David Jones determined to hold on to Energis

Mr Jones would not rule out Energis entering into a partnership with another company, a trade sale of part of the company, or even a

separate Stock Exchange listing.

But he said the strategic development of the company was being accomplished by commercial relationships, such as the one with Nortel, the equipment manufacturer, to supply research and development to the benefit of Energis.

The National Grid reported annual pre-tax profits down 4 per cent to £581.4m (£564m) in line with expectations.

Turnover fell slightly to £1.46bn from £1.49bn, although the 1996 figure included £52.7m from discontinued operations.

The group declared a final dividend of 6.68p making a

total of 11.13p, a rise of 8.4 per cent. Earnings per share improved 6.1 per cent to 24.3p.

Mr David Jefferies, chairman, said the company was confident that it would achieve real growth in dividends of between 4 and 5 per cent over the next four years.

The company believed that it could cut costs by an average of 6 per cent in real terms over a similar period, beating the target of 4 per cent set by Ofwat, the industry regulator, in its October price control determination.

With the operation of the new price control from April, pre-tax profits are set to fall by about £20m.

De La Rue shares fall 13% to five year low

By Chris Gresser

De La Rue

Shares in De La Rue, the banknote printer, plunged 13 per cent yesterday to a five year low as it reported disappointing annual profits and analysts downgraded forecasts for this year.

The company reported a 19 per cent slump in profits before tax and exceptional to £120.2m (£195.9m) for the year to March on sales of £768.2m (£763.3m).

The group took a £14.8m (£18.3m) charge for reorganisation.

De La Rue's shares, which have underperformed the market by 40 per cent over the past year, closed down 63½p at 421½p yesterday.

The company blamed the poor results on tough market conditions, especially in its banknote division, where overcapacity hit margins and volumes.

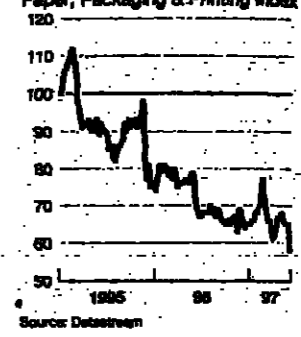
Operating profits for the security paper and print division, fell 18.5 per cent to £82.3m. Mr Jeremy Marshall, chief executive, said: "We do not expect any significant advances in sales volumes in the immediate future."

A further concern is De La Rue's inability to pass higher prices on to customers. "Prices went up 3 per cent and margins went down."

In the cash handling business, operating profits

Share price relative to the FTSE

Paper, Packaging & Printing Index



Source: Datastream

slumped 42 per cent to £22.1m, because of investment in new products and lower sales of high-margin products. "Profits should prove ahead in this division this financial year," Mr Marshall commented.

The company was upbeat about its fledgling transactions business, which produced profits of £7.6m.

De La Rue reckons the current \$1bn market for smart cards is set to quadruple by the year 2000.

Camelot, in which De La Rue is a shareholder, contributed £15.9m (£17.4m) of profits.

Earnings per share, before charges, fell 18 per cent to 34.8p. The final dividend is maintained at 16.5p, taking the total for the year to 24p (23.75p).

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Apollo Mobile	6 mths to Mar 31	35.6 (35.5)	1.91 (1.82)	41 (39)	Jul 4	1.35	-	4.1
Belhaven Brewery	Yr to Mar 31	33.3 (33.6)	3.92 (2.74)	15.2 (15.3)	31 Aug 4	nil	5.6	nil
Benson	10 mths to Mar 31	37.8 (34.3)	0.451 (0.494)	1.41 (34.7)	0.75	Jul 16	1.25	nil
Cleveland Trust	Yr to Mar 31	7.55 (4.09)	1.57 (1.82)	3.5 (3.2)	3.5	Jul 11	3.35	5.8
Daily Credit	Yr to Mar 31	787 (740)	35.54 (31.5)	21.7 (18.1)	6.84	Aug 5	9.9	-
De La Rue	Yr to Mar 31	768.2 (763.3)	105.94 (147.94)	35 (50.1)	16.5	Aug 14	18.5	24
Eurocity	6 mths to Mar 31	12.3 (12.2)	2.44 (2.37)	3.27 (3.21)	0.93	Sept 1	0.88	-
Rawlin	6 mths to Mar 31	20.5 (25.6)	0.603 (2)	0.58 (1.82)	0.525	Oct 3	0.5	-
Waco	Yr to Dec 31	- (1)	14.3 (1.55)	11.6 (3.2)	2	Jul 2	1.5	3
Waco	Yr to Feb 28	16.8 (26.1)	1.51 (1.38)	0.83 (1.3)	0.8	nil	nil	20
MEPC	6 mths to Mar 31	1827 (1937)	2.54 (67)	0.81 (11.5)	5.25	Jul 22	5.25	-
Morrison Construction	Yr to Mar 31	300 (210)	16.2 (11.4)	15.971 (13.12)	3.5	Aug 1	3.05	5.14
National Grid	Yr to Mar 31	1,458 (1,487)	591 (617)	24.3 (25)	6.68	Oct 1	6.16	11.13
Racal Electronics	Yr to Mar 31	1,165 (1,059)	40.44 (70.49)	11.3 (18.54)	3.9	Aug 29	3.9	6
Top Options	6 mths to Feb 28	21 (17.2)	2.25 (1.26)	7.32 (3.2)	1.2	Jul 25	1	-
Trifol Holdings	6 mths to Mar 31	14.7 (22.6)	11.8 (2.03)	2.53 (13.21)	nil	nil	nil	nil
Vodafone	Yr to Mar 31	1,749 (1,402)	538 (475)	11.89 (10.15)	2.45	Aug 15	2.04	4.81

	NAV (p)	Attributable Earnings (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gowell Global Star	Yr to Jan 31	108.4 (107.52)	0.034 (0.075)	0.16 (0.34)	nil	nil	nil	nil
Barbours Irish Star	Yr to Mar 31	154.11 (116.05)	0.088 (0.221)	0.41 (1.35)	0.2	Jul 31	0.675	0.575
Barbours Shared	Yr to Apr 30	101.8 (88.2)	6.42 (5.47)	5.68 (5.68)	2.475	June 30	2.4	9.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. 100 increased capital. Nil stock. *Comparatives for year to May 31. *Proforma figures. *Comparatives retained. *Gross rental income. *Foreign income dividend. *Large Contingent liability. Income dividend element.

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Shareholders are referred to the previous cautionary announcements and are advised that the process for the disposal by the principal shareholder of its shares in this company has reached the point where final offers are expected from a number of prospective purchasers within the next few weeks. Caution should accordingly continue to be exercised when dealing in the shares of the company.

Johannesburg

4 June 1997

INTERNATIONAL CAPITAL MARKETS

Borrowers raise \$5bn in US dollar sector alone

INTERNATIONAL BONDS

By Samer Iskandar
and Edward Luce

Yesterday was the most active session in recent memory, with borrowers raising \$5bn in the dollar sector alone - the equivalent of a week's supply in May.

The largest issues, concentrated in the 10-year area of the yield curve, accounted for more than half the total amount.

Bankers said demand had been boosted by investors seeking to extend the duration of their portfolios. "Fund managers have been too defensive for too long," said a banker in London. "Now they need to lock in some yield."

From a borrowers' standpoint the 10-year area offers the best swap conditions, allowing issuers to achieve attractive all-in costs once the proceeds are converted into floating-rate liabilities.

But syndicate managers warned that yesterday's pace of issuance could not be sustained.

"There has been too much supply, especially in the 10-year sector, and there is not that much cash going around," said one. "It remains to be seen whether all these issues perform well."

Another banker warned that investors' appetite was "certainly satiated, at least in the near future."

"There might room for a few more issues, but only on a selective basis," he added.

The ASIAN DEVELOPMENT BANK returned to the global bond markets yesterday for the first time since 1995 with a 10-year, \$1bn offering. Priced to yield 18 basis points over Treasuries, the bond held steady on the secondary market.

Mr Peter Balon, assistant treasurer, said the ADB was planning a further \$1.6bn in issues this year, with a debut offering in D-Marks under consideration. The bank was also looking at issuing in Philippine pesos, Indonesian rupiah and Thai baht. It has already issued in Korean won and New Taiwan dollars.

"We are not looking to issue opportunistically in Asian local currencies, but to set up bond debt benchmarks for the development of local capital markets," Mr Balon said. "We will also be returning regularly to the dollar sector to keep the ADB yield curve liquid and active."

Officials at Goldman Sachs, which led the deal jointly with SBC Warburg and Tokyo-Mitsubishi, said there was strong demand from US investors. An official at Tokyo-Mitsubishi said that heavy buying from active investors after the launch gave the bond an early start.

"Japanese investors are more comfortable holding dollar bonds now that the dollar has retraced some of its gains against the yen," said a syndicate manager.

ELECTRICITE DE FRANCE launched its largest issue since 1989 and its "first benchmark in the dollar sector," according to SBC Warburg, one of the lead managers. The other, J.P. Morgan, said the deal

was at least 50 per cent oversubscribed. "A lot of investors, mainly in Asia, viewed this deal as a quasi-sovereign issue," said a syndicate official.

Traders said the spread had tightened by two basis points from the launch level of 12 points, before stabilising in late afternoon at the 11 basis point level.

DENMARK'S issue of \$500m of six-year bonds failed to excite investors, who were deterred by the unusual maturity and the pricing over a shorter-dated benchmark.

"The deal was too obviously driven by arbitrage," said one banker in London. "By aiming to meet tight funding targets, Denmark missed its chance to set a new dollar benchmark."

FORD MOTOR CREDIT was among other large issues. Its \$1bn of 10-year bonds was priced to yield 60 basis points over Treasuries. Traders said the deal was well received with, particularly strong buying in the US. Between a quarter and a third of the amount is expected to end up in American hands.

New international bond issues

Issuer	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
IN US DOLLARS							
Asian Development Bank	1bn	6.75%	99.427	Jun 2007	0.325R	+150bps	Goldman/SBC/WTM
Ford Motor Credit Corp	1bn	(a)	99.427	Jun 2007	0.45R	+60bps	Merrill Lynch
Frankische Hypothekbank	750	(a)	99.427	Jun 2007	0.325R	(a)	Commerzbank/SBC
Deutsche Bank Finance	100	6.75%	99.427	Jun 2007	0.30R	+100bps	Deutsche Morgan Grenfell
Kingdom of Denmark	500	6.625	99.427	Jun 2007	0.275R	+100bps	ABN Amro Hoare Govett
Securitized de France	500	6.625	99.427	Jun 2007	0.25R	+120bps	JP Morgan/SBC Warburg
Securitized de France	500	6.625	99.427	Jun 2007	0.1875R	+30bps	SBC Warburg
NBG Financeco	200	(a)	99.427	Jun 2007	0.40R	(a)	Chase/Salomon Brothers
Monte dei Paschi di Siena	150	(a)	99.427	Jun 2007	0.175R	(a)	Lehman Brothers Intl
IN D-MARKS							
Republic of Turkey	1bn	7.25	100.00R	Jun 2002	0.625R	+250bps	Commerzbank/Wallis
Republic of Romania	500	7.25	100.00R	Jun 2002	1.00R	+300bps	CSFB/Deutsche AG
IN STEUBLING							
Lloyds Bank	300	7.75	99.553R	Jun 2007	0.40R	+557bps	Goldman/SBC Warburg
IN FRENCH FRANCS							
Renault Credit Intl	2bn	(a)	99.553R	Jun 2007	0.15R	(a)	OCF
Household Bank Nederland	1.25bn	(a)	100.065R	Jun 2007	0.175R	(a)	Merrill Lynch/Paribas
IN SWISS FRANCS							
Republic of Italy	1bn	3.25	102.25	Jul 2004	2.50	(a)	CSFB
IN ITALIAN LIRA							
Federative Rep of Brazil	500bn	11.00	100.00R	Jun 2017	0.70R	(a)	Deutsche Morgan Grenfell
IN GUILDER							
Republic of Finland	1bn	5.875	99.30R	Jun 2007	0.325R	+200	ABN Amro Hoare Govett
IN LUXEMBOURG FRANCS							
Kreditbank Luxembourg	2bn	(a)	102.75	Jul 2004	1.875	(a)	Kreditbank Intl Group

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch applied to bond issued. 2 Floating-rate note, 65mm annual coupon. 3 Fixed re-offer price, was shown at re-offer level. 4 Priced today. 5 Priced today. 6 Call from Jun 02 at par, call from Jun 02 at 100. 7 Call from Jun 02 at 100. 8 Call from Jun 02 at 100. 9 Call from Jun 02 at 100. 10 Call from Jun 02 at 100. 11 Call from Jun 02 at 100. 12 Call from Jun 02 at 100. 13 Call from Jun 02 at 100. 14 Call from Jun 02 at 100. 15 Call from Jun 02 at 100. 16 Call from Jun 02 at 100. 17 Call from Jun 02 at 100. 18 Call from Jun 02 at 100. 19 Call from Jun 02 at 100. 20 Call from Jun 02 at 100. 21 Call from Jun 02 at 100. 22 Call from Jun 02 at 100. 23 Call from Jun 02 at 100. 24 Call from Jun 02 at 100. 25 Call from Jun 02 at 100. 26 Call from Jun 02 at 100. 27 Call from Jun 02 at 100. 28 Call from Jun 02 at 100. 29 Call from Jun 02 at 100. 30 Call from Jun 02 at 100. 31 Call from Jun 02 at 100. 32 Call from Jun 02 at 100. 33 Call from Jun 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CURRENCIES AND MONEY

Markets rest after Euro turmoil

MARKETS REPORT
By Richard Adams

There was plenty of movement in the foreign exchange markets yesterday, but the closing levels were little changed from the previous day's trading.

Mr Marc Chandler, senior currency strategist at Deutsche Morgan Grenfell in New York, said the currency markets were in a "consolidative mood", not continuing the volatility seen in the Asian markets.

On the London market, the US dollar stood still against the D-Mark and the French franc, but lost ground against sterling. The dollar went up by a third of a cent to the pound, closing at \$1.6361.

News that the German government backed down in its gold revaluation battle with the Bundesbank stirred the European markets. The French currency hit a low

for the year of FF3.368 against the D-Mark after the election results, but the weakness of the D-Mark pushed it back to FF3.374 yesterday. Mr Chris Dunne, chief analyst at Forster in London, said: "People trying to sell the French franc get their fingers burnt."

Market perceptions that the Socialist victory in the French elections could lead to a broadly based single currency helped the dollar hit a high of DM1.7300 during early trading in Europe. It later slipped back to DM1.7261.

Traders said a broadly-based Euro would be good news for the dollar, if the Euro was launched on time without strong monetary measures to support it. The

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COMMODITIES AND AGRICULTURE

Liffe considers potato futures revamp

By Gary Mead

London's potato futures contract may be relaunched, in an attempt to persuade the UK's large potato processors to start using it.

Commodities officials on the London International Financial Futures Exchange hope that a new contract - which could be launched by the late summer - would become more heavily traded than the current one.

The aim of any revamped potato contract would be to ensure that it

does not go the way of the French version, which was closed down last month. Matif, the Paris-based futures exchange, ditched its potato contract because of declining interest in the market.

After starting in Liffe in 1984 it reached a peak of 134 daily trades in 1994 but has recently sunk as low as 20 a day.

On Liffe, where the contract is used only by potato farmers and merchants to hedge against price fluctuations, the average daily volume in May was 113 contracts.

As a guide to what a successful potato contract might be, Liffe's commodity experts are looking at the Dutch model, which has been in existence since 1968 and so far this year has had daily average trading of 338 contracts. In 1995, the Agricultural Futures Exchange in Amsterdam saw a total of 165,312 potato contracts traded, against Liffe's 26,584.

Analysts say there are two key reasons for the success of the Dutch contract. First, it uses only one type of potato, against seven

types at Liffe. More important, the big Dutch potato processors - as well as potato farmers and merchants - use the contract for hedging, providing liquidity for the contract.

In the UK, where the processing sector of the potato market is currently growing at an estimated 5 per cent a year, the leading companies have so far shunned Liffe's potato contract. The current rock-bottom UK prices of £20 a tonne are also mitigating against large-scale interest in the contract.

Liffe may decide to reject a revamp, and instead step up marketing and educational efforts on behalf of the existing contract. It said the launch of the British Potato Council at the end of this month, in place of the Potato Marketing Board, may help alter the perception of the current contract.

"Derogation of the inherently volatile nature of potato prices will hopefully make the potato industry reassess the benefits of Liffe's contract," said Mr. David Furness, director of commodity products.

Mining groups prefer M&A to exploration

By Kenneth Gooding, Mining Correspondent

The global mining industry spent a record \$14bn on mergers and acquisitions in the year to May 1997, according to an analysis by the Raw Materials Group, the Swedish consultancy.

RMG says mining groups buy other companies to avoid the costly, risky and long exploration phase of a mining project. Total annual global expenditure on mining exploration amounts to only \$4bn.

At the same time, investors are putting a premium on growth in the mining industry, particularly for North American gold producers.

Consequently, although there has been a noticeable fall in the number of deals since the Bre-X scandal began to develop early this year, merger and acquisition activity can be expected to remain at a relatively high level in 1997.

In its Who owns Who in Mining 1997, published by market analyst Roskill, RMG analyses the ownership, affiliations and output of 7,000 mining and refining companies in 1995 and ranks the top 50 in terms of the value of their output.

Higher copper and nickel prices in 1995, compared

with 1994, meant that companies producing these metals moved up the table while, as the gold price fell, so did the ranking of gold producers.

Barrick Gold of Canada, for example, dropped six places to 15th.

In contrast, Asarco, the US copper producer, moved up from 13th to 8th position and Inco, the world's biggest nickel group, jumped four places into the top 10. Phelps Dodge, another US copper group, moved from 10th to 7th place.

RMG points out that although - in terms of the value of minerals produced - Anglo American Corporation of South Africa remains the world's biggest mining group, its share of total world output fell from 8.51 to 7.78 per cent between 1994 and 1995.

Rio Tinto (formerly RTZ-CRA) is gradually catching up with Anglo and, RMG notes, Broken Hill Proprietary, Australia's biggest corporation, will move closer to Rio Tinto when the 1996 table is compiled, after BHP's acquisition of Magma Copper of the US.

Who owns Who in Mining 1997, from Roskill Information Services, 2 Clapham Road, London SW9 6JA, UK. £230 or US\$180.

Volatile trading in coffee

MARKETS REPORT

By Gary Mead

The rollercoaster ride in coffee futures continued yesterday, with the benchmark July contract on the London International Financial Futures Exchange soaring by \$170 a tonne at one stage. Dealing had calmed somewhat by the close, and the July future closed up \$40 at \$2,150 a tonne.

Trading in arabica coffee futures on New York's Coffee, Sugar and Cocoa Exchange was equally volatile; in early dealing the July future rose to \$58.50 cents a pound then retreated to \$56.40 cents, up 2.45 cents on the day but considerably lower than last Friday's 20-year peak of 318 cents.

In metals, palladium was higher in London at yesterday afternoon's "fix", up \$18.20 at \$1,188.70. Base metals on the London Metal Exchange traded generally lower, with the price for three-month copper ending the day \$6 lower at \$2,478 a tonne.

Nickel, however, was boosted by overnight news of industrial action at Inco's Sudbury plant in Canada. The price for three-month nickel on the LME closed at \$7,180 a tonne, up \$155.

Deregulation delights BM&F

Brazil's futures exchanges were pleasantly surprised last month when the government edged open the door to foreign investors, allowing them to hedge equity investments for the first time since 1985.

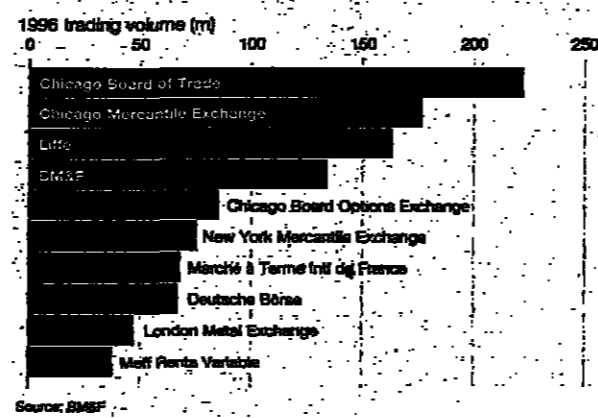
Officials at São Paulo's Commodities and Futures Exchange, the BM&F, see the move as the first stage in a gradual opening to foreign capital that will allow the exchange to take a leading role in the integration of South America's financial and commodities markets.

They may be right. But the government's timing suggests its real concern is with the country's growing current account deficit, which reached 3.9 per cent of gross domestic product in April, and that it is happy to use the markets, whether it benefits them or not, to achieve its monetary policy objectives.

Last week's change applies to capital entering the country through a channel known as Annex IV, which allows investment in Brazilian equities free of a financial operations tax charged on fixed-income investments.

It ends restrictions imposed in August 1995 on the grounds that investors were using Annex IV to construct "boxed" hedge operations that amounted to fixed-income instruments. Mr Manoel Cintra, president of the BM&F - which is

World derivatives exchanges



Source: BM&F

the world's fourth busiest futures exchange, trading a daily average of 590,000 contracts in April - says the exchange's contract volume as much as 30 per cent. Foreigners who have been hedging their Brazilian equity investments elsewhere will, he argues, return to the country.

"This will bring more liquidity and put us in a better position to compete with foreign exchanges," he says. "From the broker's point of view it opens new possibilities and allows him to reach new clients."

The risk of investors' constructing boxed operations is lower than it was, he argues, as Brazil's interest rates have fallen. "The government has seen that there is no longer any monetary rea-

son not to allow foreigners back in," he says. "We have been talking to them about this and we want to talk about how the exchange can ease the entry of foreign investors."

Mr Cintra insists the government's decision was not related to concern over the current account and that the latest change is here to stay. But in talking about capital flows, he may have touched the core of the government's motives.

The government stopped investors from using Annex IV funds in equity hedging in August 1995, when the rate of foreign capital flows was threatening to undermine its monetary policies. In order to prevent an

inflation-fuelling expansion of the monetary base, it was obliged to soak up capital inflows by issuing domestic debt. As the burden of debt became unmanageable, it moved to slow capital flows by, among other measures, blocking access to futures markets.

The context of last month's change was quite different. As interest rates have fallen over the past two years, so has the attractiveness of Brazilian fixed-income investments.

Meanwhile, the strength of the Brazilian Real has produced a growing current account deficit that economists say could reach \$35bn this year.

"Naturally the BM&F is looking on the positive side, and this kind of change is always welcome," says Mr Mauro Schneider, economist at ING Barings in São Paulo. "Nevertheless, the timing of both changes shows they are really concerned with capital flows."

Even if it does find itself used as a pawn in the government's wider strategy, the BM&F is confident greater openness to foreign funds is on the way.

It already has an office in New York and its officers pay frequent visits to foreign institutional investors, even though their access to the exchange remains extremely limited.

Jonathan Wheatley

Australia sees record harvest

By Nikki Tait in Sydney

Australia is set to notch up record crop production for 1996-97, at 39.2m tonnes, the Australian Bureau of Agriculture and Resource Economics, the government-owned agency, forecast yesterday. If correct, this would represent an 18 per cent increase on the previous record, of 1983-84.

Meanwhile, recent rain on Australia's east coast should allow winter crop plantings to top 18m hectares in 1997-98, with the wheat area standing at about 11.1m hectares, only 2 per cent down on 1996-97.

"On the basis of current planting intentions and assuming normal rainfall through to harvest, total wheat production in Australia in 1997-98 is forecast to be almost 19.2m tonnes," ABARE suggested.

This would be a significant reduction from the record 23.6m tonnes of wheat likely to be produced in 1996-97, but still well ahead of the previous year's 16.5m tonnes.

ABARE conceded that despite the recent planting rains, there were still "some concerns about follow-up winter rainfall, with some seasonal indicators being less than favourable."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Ammetals Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	5 mths
Close	1553-54	1577-78
Previous	1598-99	
High/Low	1597-1575	
AM Official	1580.5-61	1579.5-90.5
Kerb close		1577-78
Open int.	265,430	
Total daily turnover	118,384	

ALUMINIUM ALLOY (\$ per tonne)

	Cash	5 mths
Close	1445-55	1475-74
Previous	1455-55	
High/Low	1450-1470	
AM Official	1450-52	1470-75
Kerb close		1470-75
Open int.	5,078	
Total daily turnover	796	

LEAD (\$ per tonne)

	Cash	5 mths
Close	610-11	622-3
Previous	611-13	623-4
High/Low	609-9.5	621-1.5
AM Official	609-9.5	621-1.5
Kerb close		621-1.5
Open int.	35,218	
Total daily turnover	7,295	

NICKEL (\$ per tonne)

	Cash	5 mths
Close	7055-55	7185-70
Previous	6915-25	
High/Low	7050-7050	
AM Official	6965-70	7075-85
Kerb close		7185-90
Open int.	50,012	
Total daily turnover	20,553	

TIN (\$ per tonne)

	Cash	5 mths
Close	5615-25	5670-75
Previous	5550-50	
High/Low	5550-50	5670-75
AM Official	5550-50	5670-75
Kerb close		5670-75
Open int.	16,493	
Total daily turnover	4,547	

ZINC, special high grade (\$ per tonne)

	Cash	5 mths
Close	1298-300	1324-25
Previous	1303-34	1327-27.5
High/Low	1299-350	1325-26
AM Official	1299-350	1325-26
Kerb close		1327-28
Open int.	90,540	
Total daily turnover	39,492	

COPPER, grade A (\$ per tonne)

	Cash	5 mths
Close	2535-38	2478-79
Previous	2535-41.5	2483-84
High/Low	2535-38	2478-79
AM Official	2535-38	2478-79
Kerb close		2478-79
Open int.	138,503	
Total daily turnover	32,298	

LME AM Official 925 rate 1.8371

LME Closing 925 rate 1.8380

Sept 1997 1.833 1.833 1.833 1.833 1.833

HIGH GRADE COPPER (COMEX)

	Cash	5 mths
Close	342.50-343.40	
Previous	343.50-344.20	
High/Low	343.50-344.20	
AM Official	343.50-344.20	
Kerb close		
Open int.	2,210	
Total daily turnover	456	

PRECIOUS METALS

(Prices supplied by N M Rothschild)

GOLD (Troy oz) \$ price

	Cash	5 mths
Close	342.50-343.40	
Previous	343.50-344.20	
High/Low	343.50-344.20	
AM Official	343.50-344.20	
Kerb close		
Open int.	2,210	
Total daily turnover	456	

SILVER (Troy oz) \$ price

	Cash	5 mths
Close	286.90	474.50
Previous	292.20	477.55
High/Low	292.20	477.55
AM Official	292.20	477.55
Kerb close		
Open int.	305.15	488.15
Total daily turnover	344-346	210-211

NEW SOVEREIGN

	Cash	5 mths
Close	80-83	49-51

PRECIOUS METALS continued

GOLD COMEX (100 Troy oz, \$/Troy oz)

	Cash	5 mths
Close	342.50-343.40	
Previous	343.50-344.20	
High/Low	343.50-344.20	
AM Official	343.50-344.20	
Kerb close		
Open int.	2,210	
Total daily turnover	456	

PLATINUM NYMEX (50 Troy oz, \$/Troy oz)

	Cash	5 mths
Close	401.7	408.5
Previous	392.2	417.7
High/Low	392.2	417.7
AM Official	392.2	417.7
Kerb close		
Open int.	1,877	20,131

PALLADIUM NYMEX (100 Troy oz, \$/Troy oz)

	Cash	5 mths
Close	181.85	184.00
Previous	169.85	171.00
High/Low	169.85	171.00
AM Official	169.85	171.00
Kerb close		
Open int.	155.65	3.85

SILVER COMEX (5,000 Troy oz, \$/Troy oz)

	Cash	5 mths
Close	471.1	473.5
Previous	472.8	474.5
High/Low	472.8	474.5
AM Official	472.8	474.5
Kerb close		
Open int.	463.4	473.5
Total daily turnover	463.4	473.5

CRUDE OIL NYMEX (1,000 barrels, \$/barrel)

	Cash	5 mths
Close	20.35	20.83
Previous	20.35	20.83
High/Low	20.35	20.83
AM Official	20.35	20.83
Kerb close		
Open int.	19.13	19.13
Total daily turnover	19.13	19.13

CRUDE OIL ICE (\$/barrel)

	Cash	5 mths
Close	19.13	19.13
Previous	19.13	19.13
High/Low	19.13	19.13
AM Official	19.13	19.13
Kerb close		
Open int.	19.13	19.13
Total daily turnover	19.13	19.13

HEATING OIL NYMEX (42,000 US gal, \$/US gal)

	Cash	5 mths
Close	54.85	54.85
Previous	54.85	54.85
High/Low	54.85	54.85
AM Official	54.85	54.85
Kerb close		
Open int.	54.85	54.85
Total daily turnover	54.85	54.85

GAS OIL ICE (\$/barrel)

	Cash	5 mths
Close	17.00	17.00
Previous	17.00	17.00
High/Low	17.00	17.00
AM Official	17.00	17.00
Kerb close		
Open int.	17.00	17.00
Total daily turnover	17.00	17.00

NATURAL GAS NYMEX (10,000 mcf, \$/mcf)

	Cash	5 mths
Close	1.10	1.10
Previous	1.10	1.10
High/Low	1.10	1.10
AM Official	1.10	1.10
Kerb close		
Open int.	1.10	1.10

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 873 6378 for more details.

BERMUDA

(SIB RECOGNISED)

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	Highly Anticore	European/International	
Investment E	0.12844	1.262	-0.001
Invested E	0.13372	1.4079	-0.0094
Investment E	0.11625	1.2298	-0.001
Equity	0.15174	1.5874	-0.0021
Project Interest	0.12899	1.3974	0.0074
Deposit	0.1130	1.1937	0.0080
Investment E	0.14553	1.6467	-0.0047
Invested E	0.12088	1.441	0.0031
Investment E	0.12088	1.3687	0.0034
Investment E	0.12088	1.2798	0.0005
Investment E	0.13827	1.5670	0.0070
Deposit	0.11705	1.1683	0.0030
Investment E	0.13617	1.5227	0.0085
Invested E	0.12088	1.2653	-0.0001
Investment E	0.12088	1.350	0.0001
Investment E	0.11554	1.0482	-0.16
Investment E	0.12088	1.627	0.0072

New Fund Net (\$)		Ltd (12m)		01/33 29/3/07	
Sec 100, St Peter, (3)					
New Unlevered Growth Funds \$					
Risk					
Equity	75	22,718	2,110	-0.020	-
US American	75	22,822	2,110	-0.001	-
Europe	75	21,994	2,030	-0.004	-
UK Growth	75	24,920	2,280	-0.015	-
European Growth	75	25,229	2,547	-0.001	-
US East Asia	75	275.42	19.36	-0.005	-
US Bond	75	22,836	2,822	-0.012	0.27
European Bond	75	22,862	2,780	-0.003	0.92
US Bond	75	31,497	1,979	-	5.91
Commodities	0				
Global	0	238.04	-	-	5.25
Global	0	238.04	-	-	4.63

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General Liability Policy	2003-2004	2004-2005	2005-2006
General Liability Policy	2003-2004	2004-2005	2005-2006
General Liability Policy	2003-2004	2004-2005	2005-2006
General Liability Policy	2003-2004	2004-2005	2005-2006

FT MANAGED FUNDS SERVICE

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INVESTMENT TRUSTS - Cont.

INSURANCE

مکتبہ اسلامیہ، لاہور

LONDON STOCK EXCHANGE

Wall Street triggers good rally in equities

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

There were further signs of increasing unease across London's equity market as shares fell again for the fifth consecutive session yesterday, although they closed well above the day's worst levels as global bond markets rallied strongly.

"It's Gordon Brown, we're going down," remarked one market wit, referring to the growing nervousness about the July 2 Budget, which has begun to whittle away at the market's confidence over the last few sessions.

He pointed to the persistent concern about tax increases.

There were plenty of other worries. Thursday's first meeting of the government's newly appointed monetary policy committee was being viewed with concern, with some traders taking the view that a 25 basis points increase in UK interest rates might follow.

The outcome of the UK monetary meeting should be known before news of the US non-farm payroll report for May is published. "Friday could well be a big day in the market, if the Bank moves rates higher and we get a bad employment report," said one observer.

It was also noted that the Budget coincides with the next meeting of the US Federal Reserve's Open Market Committee. The combination of a rise in US rates and a hard-hitting UK Budget is viewed with alarm.

At the end of a day of increased activity, the FTSE 100 index lost 5.0 at 4,567.8, bringing the decline over the past five sessions to 123.3 points or 2.6 per cent.

Of increasing concern to investors was the fact that the selling pressure, which has been concentrated in the leaders recently, broadened yesterday to encompass the second line stocks in the FTSE 250 and the small shares in the SmallCap index.

The latter dropped 10.4 to 2,281.0, while the former gave up 19.9 to 4,562.0.

But London finished well above earlier depressed levels, which were said to have been caused by another big sell-off in the financials, themselves weakened by a lack of expected follow-through buying interest in the Halifax, the newly-converted bank. Halifax shares were marked down to 714p before embarking on a strong rally.

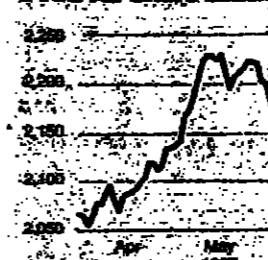
Apart from the Halifax, there were plenty of talking points in the sector; Barclays were heavily driven down before spiralling up late in the session after the bank insisted its BZW investment

banking division was not for sale. The overall market also rallied well as Wall Street's Dow Jones Industrial Average saw an early 30-point decline transformed into a 40-points plus gain not long after London closed.

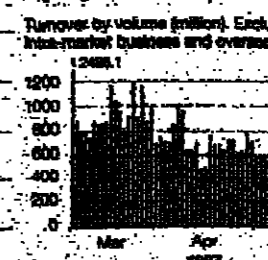
Leading insurance stocks also raced higher after a difficult start. Marketmakers shifted prices higher after City Index, the financial and sports betting firm, announced it had bought a 40 per cent stake in the company. In Norwich Union shares ahead of the June 16 float. City Index's closing quotation yesterday was 300p-310p.

Overall market turnover at 6pm was 961.8m shares.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4567.8	-5.0
FTSE 250	4462.0	-19.9
FTSE 350	2212.7	-3.9
FTSE All-Share	2174.4	-4.27
FTSE All-Share yield	3.57	3.56

Best performing sectors

1 Gas Distribution	+4.8
2 Life Assurance	+1.6
3 Textiles & Apparel	+1.2
4 Alcoholic Beverages	+1.0
5 Insurance	+0.7

Worst performing sectors

1 Paper, Pkg & Printing	-2.8
2 Food Producers	-1.2
3 Engineering, Vehicles	-1.0
4 Electronic & Elect Equip	-1.0
5 Household Goods	-0.9

Broker boost for BG

Brisk buying in BG in the second half of the session drove the shares sharply ahead and helped boost turnover in the stock.

By the close, the shares were 12 1/2 better at 217 1/2p, the best performer in the FTSE 100. Volume of 21m made it one of the day's most actively traded shares.

Strong demand prompted a wave of rumours in the early part of the afternoon. One story suggested the long-awaited Monopolies and Mergers Commission (MMC) report into the revenues of TransCo, BG's gas pipeline business had leaked into the market and was in favour of BG's position.

Ogas, the industry regulator, last year tried to impose a cut of up to 26 per cent in the revenues of TransCo, in order to pass the savings on to consumers. The price cut was blocked by British Gas. The report was delivered to both Ogas and BG, (demerged from British Gas earlier this year) last Friday.

However, it emerged towards the close that a bullish note from Deutsche Morgan Grenfell due to be published today was the most likely reason for the advance in the stock. Dealers said a select group of large institutions had become aware of the circular, prompting the late buying spree and

a squeeze at the close. DMG is said to have set a near term share price target for BG of 300p, well ahead of the most optimistic current predictions of around 250p a share.

The three listed partners in Camelot, the national lottery organiser, suffered a collection of individual problems. They are already under pressure from the government over bonus payments to directors when ticket sales and profits declined.

Racal, which has a 23 per cent stake in Camelot, edged up 1 1/2 to 235p late in the day after it said it had called in Goldman Sachs to advise on "maximising shareholder value". The measures might include joint ventures, strategic alliances, equity partnerships, flotations and divestments, Racal said. It also reported a big profits fall and said it had launched a strategic review and would shed 1,000 jobs. Its pre-tax profits were down from £70.4m to £40.4m after £19.3m of exceptional charges.

Mr Brian Newman at Henderson Crosthwaite is a buyer of Racal. He believes the sum of the parts valuation makes the shares worth 300p a share. He said: "The share price will be dominated by corporate activity over the next few months."

Racal is meeting with some of its biggest shareholders over the next few days to work out valuations. De La Rue fell 63 1/2p to 42 1/4p in heavy trading of 4.3m shares after the bank note printer reported pre-tax

profits down from £148m to £106m. Camelot contributed £15.9m of profits, down from £17.4m the year before.

Cadbury Schweppes was the second biggest faller in the Footsie, down nearly 3 per cent or 15 to 526 1/2p in heavy trading of 6.6m shares, on fears for its US drinks sales after a US press report that Coca Cola was trying to squeeze Cadbury's Dr Pepper/Seven Up brands out of McDonald's restaurants.

Coke was reported to have offered free supplies of soft drinks in return for an exclusive supply agreement. If successful, the move could reduce Cadbury's US sales and profits that have already been affected by the strength of sterling. The US represented 40 per cent of the group's total drinks sales in the year to December, and Cadbury said in March that

Dr Pepper volumes had risen 5 per cent last year.

Market specialists continued to keep a close eye on the banking sector. Profit-taking left Halifax trailing 10 to 72 1/2p, which is below Monday's auction price of 73 1/2p.

BZW yesterday issued 10m call covered call warrants on Halifax, having made a similar move in Alliance & Leicester earlier this year. Shares in A & L closed 5 off at 598 1/2p.

Barclays was one of the few specs of blue in an otherwise dull sector. The shares bounced 26 1/2 to £11.61 1/2 on general bargain hunting.

Chairman Mr Andrew Buxton said on Tuesday his bank had no intention of selling off BZW, its investment banking arm. "There is no substance in these rumours," Mr Buxton said. Investors in electronics

group Amstrad were rubbing their hands in glee as they focused on the company's reconstruction proposals announced yesterday.

Shares in the company rose 13 1/2 to 27 1/2p, after trade of 4.1m. The company said shareholders will receive 163p nominal of loan notes exchangeable for cash for each Amstrad share.

They will also receive one Vigen Technology share, a pro rata share of Amstrad's shareholding in Betacom and a right, by way of a letter of entitlement, to their share of any proceeds from the litigation Amstrad is involved in against Seagate Technology of the US. Betacom shares closed 4 off at 53 1/2p.

Kalamazoo advanced 13 1/2 to 92 1/2p after the computer group confirmed rumours that it was in takeover talks. However, it pointed out that the Kalamazoo Trust, which owns 40 per cent of the company, may not be able to accept any offer. The board was still investigating ways of modernising the trust.

Among retailers, Dixons was the third biggest riser in the Footsie as it advanced 13 1/2 to 481p in volume of 4.6m, continuing to recover from the 2 per cent fall it took on Friday following concerns that the government would abolish recommended retail prices.

Sporting leisure stocks, still smarting from the profits warning last week by Nike of the US, extended the falls seen on Monday. Blacks Leisure was down 4 1/2 to 47 1/2p while John David Sports was down 21 to 260p after its profits warning on Monday. JTB Sports was down 15 1/2 to 47 1/2p.

P & O was up 8 to 647 1/2p in heavy trading of 3.7m helped by a reiteration by NatWest Securities of its "add" stance in a note yesterday following results from P & O Nedlloyd Container Line, the joint

venture company created by the merger of the two parties' container businesses.

The broker cited cost-cutting ahead of schedule and the rapid strategic development of the company. Sentiment in the stock was also helped by the news on Monday that the French authorities had given the go-ahead to its planned cross-Channel link-up with Stena of Sweden. The agreement is subject to a report from the Monopolies and Mergers Commission.

Topps Tiles, the builders' merchants that was placed at 100p on Monday, rose 2 to 113 1/2p yesterday. About 300 of its staff are to receive shares worth about 6 or 7 per cent of their salary.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LFFE) £25 per full index point (AP1)

	Open	Sell price	Change	High	Low	Est. vol	Open Int.
Jun	4568.0	4563.0	+3.0	4570.0	4562.0	16605	67837
Jul	4565.0	4560.0	+2.5	4565.0	4557.5	1155	9929
Aug	-	4560.0	+3.0	-	-	0	733

■ FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

	Open	Sell price	Change	High	Low	Est. vol	Open Int.
Jun	4465.0	4460.0	-27.0	4465.0	4460.0	309	5511
Jul	4452.0	4452.0	-25.5	4452.0	4452.0	280	700

■ FTSE 100 INDEX OPTION (LFFE) (£251) £10 per full index point

	Open	Sell price	Change	High	Low	Est. vol	Open Int.
Jun	4460	4460	4900	4390	4900	4700	4700
Jul	4460	4460	4900	4390	4900	4700	4700

■ EURO STYLE FTSE 100 INDEX OPTION (LFFE) £10 per full index point

	Open	Sell price	Change	High	Low	Est. vol	Open Int.
Jun	4375	4425	4475	4525	4425	4475	4725
Jul	4375	4425	4475	4525	4425	4475	4725

Call 16.14 Put 16.22 Underlying index value: 4567.8. Premiums shown are based on settlement prices.
† Long call only index.

TRADING VOLUME

■ Major Stocks Yesterday

Vol. Closing Day's

Chg. %

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FTSE Actuaries Share Indices

Produced in conjunction with the Equity and Income of Actuaries

The UK Series

Jan 3 days

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FTSE

INTERNATIONAL

Based on trading volume for a selection of

major securities dealt through the SEAO

market, weighted by their respective

FTSE 100 index constituents. All values are

rounded. Source: Eikon, part of FT

Information.

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ActivCard	US\$5.5	+0.125	0	8.25	4.375	Expat Telecom ADS	US\$7.625		1000	12.25	5.375
Amway Systems	US\$10.5	+0.125	58135	11.125	9.5	Imagequest	US\$11.75		9125	12.75	10.375
Comcast	FR\$19.5		30000	18	15.5	Mercer International	US\$11.375		0	11.25	8.125
Dr Schlemmer ADS	US\$28.5	+0.125	0	26.5	16.875	Protech	US\$4.125	+0.125	4500	6.125	3.375

Prices for 3/6/97. Please note that mid prices are now used to calculate highs and lows.

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Dow shakes off losses in techs

Revaluation deal sends Frankfurt higher

AMERICAS

Blue chips again diverged from technology groups on Wall Street at midsession, as profits warnings hit the tech stocks, writes *Jane Martinson in New York*.

The Dow Jones Industrial Average rose 10.25 to 1,394.54, after starting the day on a negative note. The more broadly-based S&P 500 also rose, by 3.27 to 849.63.

Some of the improvement was a reflection of gains in the bond market. The benchmark 30-year bond rose 1/4 to 96 1/2, yielding 6.875 per cent.

US techs

Share prices rebounded. The Dow Jones Industrial Average rose 10.25 to 1,394.54, after starting the day on a negative note. The more broadly-based S&P 500 also rose, by 3.27 to 849.63.

However, Mr Joseph Battaglia, chief investment strategist at Gruntal & Co, said that the "great resilience" of the Dow was partly related to short-term decisions by money managers ahead of second-quarter results. "The momentum is with the market," he said. He believed that the larger company indices would tread water in the medium-term, however, and that smaller companies and technology companies would catch up.

However, this catch-up of the technology-driven Nasdaq composite index was delayed yesterday after the market was disturbed by profits warnings from two technology groups. Seagate Technology, the largest disk drive maker, fell 3/8 or 7 per

cent to 33 1/2 after warning that sales would fall in the fourth quarter, while Cabletron, the networking company, said second-quarter earnings would be below analysts' estimates. It fell 15 or almost 33 per cent to 33 1/2.

The warnings excited fears about weaker demand first raised by Intel last Friday. The world's largest silicon chip manufacturer fell another 2 per cent or 3/4 to 146 1/2.

Other technology groups to be hit included Cisco and Dell. The misfortunes of some were the opportunities of others, however. Cyrix continued its strong rally of the past week with a rise of 1/2 to 126 1/2.

The Russell 2000, the index of smaller companies, edged up 0.06, above its closing all-time high, at 383.58 after a weak morning. Physician Corporation of America rose 1/4 or 6 per cent to 36 1/2 after its takeover by Humana, a healthcare group, was announced. The predator rose 1/4 to 32 1/2.

TORONTO moved higher, dealers saying that the election result had been widely discounted and had little impact on sentiment. Shares were said to be mostly tracking Wall Street. At noon, the 300 composite index was up 30.72 to 5,436.30.

Index heavyweights Alcan Aluminium and Seagram moved higher with Alcan up 30 cents at C\$49.70 and the spirits and media giant gaining 95 cents to C\$54.30. Steel stocks remained in favour. Steelco added 5 cents at C\$10.40 and Algoma gained 25 cents to C\$8.05.

Dull bullion hit golds and Barrick Gold shed 10 cents to C\$34.00. Techs were mostly weak: Newbridge Networks fell C\$1.85 to C\$55.60 and Northern Telecom shed 25 cents to C\$118.

Mexico at new high

MEXICO CITY continued to set records after the government launched its latest economic plan. At midsession, the IPC index was 54.91 or 1.5 per cent higher at 4,062.23.

Announcing the development plan, president Ernesto Zedillo said that the economy was set to grow by an average annual rate of 5 per cent and that inflation for May would be lower than the 1.1 per cent of April.

Buenos Aires also pushed ahead, the market consolidating slightly after

its Monday advance of 1.8 per cent. Foreign buyers were again in action and at midsession the Merval index was up 4.41 to 796.50.

SANTIAGO, strong lately on the back of higher copper prices and fading worries about the lack of rain, came in for modest profit-taking. At the midsession calculation, the IPSA index was off 0.58 at 132.99 in light volume.

CARACAS moved up sharply during a morning of moderate volume. At midsession, the IBC index was 123.0 better at 6,978.41.

Industrials lift South Africa

Another strong rise for industrials sent Johannesburg sharply ahead for the second day running, lifting the all-share index 50.7 to 7,120 in good volume.

Financials were strong: Rand Merchant Bank jumped 40 cents or 3.5 to R11.60 on plans to move into retail banking, and Standard Bank rose R5 to

R210. Anglo American was also a feature, rising R5.55 to R268.25 on the back of a strong earnings statement.

Bonitta fell again on Monday's news of weak profits. The shares fell 16 cents to R2.24. The industrial index closed up 46.4 at R336.8. Golds, held in check by another flat day for the bullion price, fell 8.4 to 1,188.2.

EUROPE

News that Chancellor Helmut Kohl's coalition had struck a compromise deal with the Bundesbank over its controversial plan to revalue central bank gold and currency assets, in preparation for EMU, sent Frankfurt sharply higher late in the day.

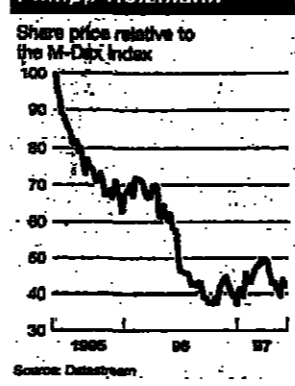
One analyst said that the move had removed a significant political uncertainty, allowing the market to turn its attention back to economic fundamentals. At the same time, many investors were belatedly coming to the view that the outcome of the French election at the weekend was perhaps not as bad as many had first thought.

By the close, the Dax index was 59.19 or 1.7 per cent higher at 3,655.59 in turnover that fell again, from Monday's DM10.3bn to DM9.4bn.

Exporters continued to benefit from the weak D-Mark. Volkswagen jumped DM41.34 or 3.7 per cent to DM117.00 on a rosier export outlook. Thyssen rose DM12.90 or 3.3 per cent to DM405.90, helped by a positive analysts' meeting.

In the opposite direction, Holzmann tumbled DM14 to DM490.50 after Monday's news that Hochtief and Deutsche Bank were dropping

Philipp Holzmann



plans to pool their stakes in the company. PARIS continued to rally. The latest twist in the EMU saga underpinned bonds, and the franc also improved. But the main drive again came from the bargain hunters. The CAC 40 index ended 23.04 higher at 2,534.45.

Although barely half Monday's bumper levels, volume was a solid-looking 15.2m shares and sentiment stayed generally positive. Accor and Legrand were the hot stocks. Accor jumped FF53 or 6.7 per cent to FF499 ahead of today's annual meeting. Legrand gained FF57 or 6.1 per cent to FF995.

Lagardère, down some 13 per cent last week, came in for positive words from

Deutsche Morgan Grenfell and NatWest Seller, jumping FF7.10 to FF166. BNP, an equally weak market lately, rebounded FF1.80 to FF250.70 after rumours of a link (if not merger) with Dresdner Bank of Germany resurfaced.

Broker upgrades got behind Thomson-CSF and Cap Gemini. SBC Warburg moved from "neutral" to "buy" and NatWest Seller from "hold" to "accumulate" at CSF. The shares ended FF3 higher at FF155. Goldman Sachs edged up Cap Gemini, FF6 ahead at FF330, to a trading buy.

ZURICH broke the 5,200 barrier for the first time, the SMI index gaining 57.2 at 5,207.2 on the higher dollar, a favourable interest rate outlook, Frankfurt's gains and the Dow's morning move from loss to gain.

Financials were held back by profit-taking but industrials were strong. Alustus rose SF39 to SF71.390 as old spin-off rumours were revived: in construction, Holderbank rose SF19 to SF129.99 after UBS added the stock to its European focus list.

In pharmaceuticals, Novartis registered, the most active stock of the day, put on SF41 to SF1.985; and in food, Nestlé picked up SF21 to SF1.809, traders saying

FTSE Actuaries Share Indices

June 3	June 4	June 5	June 6	June 7	June 8	June 9	June 10	June 11	June 12	June 13	June 14	June 15	June 16	June 17	June 18	June 19	June 20	June 21	June 22	June 23	June 24	June 25	June 26	June 27	June 28	June 29	June 30
FTSE 100	2338.78	2344.34	2345.48	2344.33	2345.78	2343.84	2344.48	2344.14	2345.05	2346.30	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10	2346.10
FTSE 250	2364.05	2368.30	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10	2368.10

that the shares were lifted by falling coffee prices in early trade.

MADRID, which had been vulnerable to EMU fears, saw a stronger dollar boost its domestic bond market. The general index gained 9.65 or 1.8 per cent at 556.67, although turnover fell from Ptas126bn to Ptas80.6bn.

The leaders list was peppered with gains of 3 per cent and more. Amper, the telephone equipment maker, rose Ptas135 or 3.7 per cent to Ptas3,825 on a plan to repay Ptas200 of capital per share. Banks gained from bond market influence, Santander leading with a rise of Ptas70 or 4.6 per cent at Ptas1,850.

AMSTERDAM traded quietly, with KPN and Philips commanding most investor interest. The AEX index ended up 4.51 at 811.99.

KPN gained F12 to F170.70 in 5.5m traded for a two-day rise of 5 per cent as investors warmed to the possibility of a split into two separate

companies, possibly as early as this summer. Philips again met with good demand, adding F13.70 or 3.3 per cent at F113.70.

A reiterated "buy" recommendation from NatWest Securities failed to lift Nedlloyd. The broker expects the group's container joint venture with P&O of the UK to exceed its cost reduction targets.

Nedlloyd stayed stubbornly on the downside, dipping 10 cents to F147.20.

MILAN found support in a strong lira and what it saw as a more benign outlook for introduction of a single currency: the Comit index picked up 6.28 to 763.24.

ENI recovered L55 at L8.650 after recent losses that reflected selling by Italian funds ahead of the placement of a third tranche of government-held shares from June 23.

A L&Z surge in Ciga to L842 was attributed to speculation that ITT could sell the

group but retain management of its hotels, as part of its move to fend off a hostile bid from Hilton.

STOCKHOLM was flat, the general index rising 0.43 to 2,841.91. However, brokers said that the Swedish decision to stay out of EMU in 1999 could have a dampening effect, lifting the kronor and hitting exports.

ATHENS continued its rebound after last week's reaction, the general index recovering another 31.39 or 1.9 per cent to 1,894.55.

Foreign investors continued to offload large holdings in private banks and selected construction stocks on interest rate and foreign exchange fears, but domestic buying interest snapped up most of the offer, said brokers.

BUDAPEST said that buying momentum was beginning to run out of steam, but it was enough to give the market its third successive all-time high, the Bux index rising 113.52 to 6,278.45, up 9.3 per cent over the last seven trading days.

Here, foreign money was mostly on the buying side, arguing that a strong dollar made Hungarian paper more attractive.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

Hong Kong at intra-day peak before 1.5% slump

ASIA PACIFIC

After another new intra-day high, HONG KONG turned back to close 1.5 per cent lower as investors unsettled by worries about the outlook for the property market and disappointment at the outcome of the day's government land auction.

The Hang Seng index closed 230.73 lower at 14,760.17 in turnover that remained robust at HK\$3.3bn, although below Monday's record HK\$3.5bn.

Analysts noted that the morning's all-time high of 15,020.96 was largely the result of continued covering of warrants issued on Monday.

Cheung Kong, which made the winning bid for one of the sites on offer, closed HK\$2.50 lower at HK\$77.75 while Hutchison Whampoa, its subsidiary, fell HK\$1 to HK\$64.25.

HSBC Holdings slid HK\$6 to HK\$227 in very heavy turnover of almost HK\$1.4bn as demand for the banking giant by London-based institutions dried up.

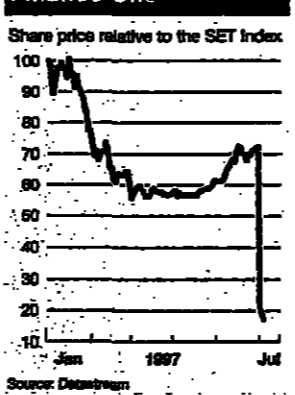
TOKYO closed at a 1997 closing high on active buying by foreign investors of blue chip exporters and domestic demand-driven issues, writes *Owen Robinson*.

The Nikkei 225 average rose 111.31 to 20,563.16 after moving between 20,432.14 and 20,671.97. Foreign buying more than offset profit-taking by domestic institutions, but the key index faced resistance at the 20,500 level and heavy selling in the afternoon brought it back from the day's high.

Volume swelled from 311m shares to an estimated 439m but this was relatively low, considering the market's gains over two days, and analysts said equities would require strong new economic data to advance significantly.

Advances led declines 638 to 437 with 182 unchanged.

Finance One



The Topix index of all first-section stocks rose 4.10 to 1,511.93 and the capital-weighted Nikkei 300 by 0.54 to 291.91. In London, the ISE/Nikkei 50 index rose 1.87 to 1,600.44.

Among exporters, Sony closed at an all-time high of Y10,100, up Y180. Fujitsu, the day's most active issue, rewrote the year's high, adding Y20 to Y1,470. Many other high-technology issues advanced, with TDK up Y100 to Y3,050, Advantest Y60 to Y3,050, NEC Y20 stronger at Y20 to Y1,650. Among blue chip losers, however, were Honda, down Y30 to Y3,550, Nikon by Y40 to Y2,050 and Canon, Y20 weaker at Y3,000. Toyota added Y20 to Y3,430.

Domestic demand-driven issues were mixed. Mitsubishi Heavy Industries, which recently reported strong profits, fell Y13 to Y852 on profit-taking. Property developers were the day's biggest gainers, up nearly 2.5 per cent as a group in spite of poor earnings announcements in the just-finished corporate results season. Mitsui Fudosai rose Y50 to Y1,520 and Mitsubishi Estate Y40 to Y1,670.

Steelmakers continued their recent advance, Kawasaki Steel rising Y7 to Y354 and Sumitomo Metal Industries Y5 to Y316.

In financials, Nomura Securities fell Y20 to Y1,370 and Dai-ichi Kangyo Bank Y70 to Y1,350 on the growing scandal involving both companies in charges of paying off corporate racketeers. Nippon Credit Bank, however, added Y3 to Y250 on Monday's news that Nippon Life Insurance, Japan's leading life insurer, would contribute Y28.5bn to the troubled bank's recapitalisation plan.

In Osaka, the OSE average rose 149.86 to 21,269.49 and volume doubled to 21m shares.

BANGKOK ended lower after heavy selling of bank and finance issues as worries about non-performing loans resurfaced. The SET index fell 6.78 or 1.3 per cent

to 556.57 in thin Bt2.5bn turnover.

Ahead of its planned rights issue, Finance One led the decline, dropping the daily 10 per cent limit or Bt0.60 to Bt5.70. Turnover was Bt238m making it the day's most active stock.

"The rights issue has clearly rattled sentiment," said one broker. The issue is pitched at Bt7.50 a share. MANILA closed weaker on profit-taking after eight consecutive days of gains. The composite index closed 17.94 lower at 2,802.78 after touching an intra-day low of 2,790.78. Turnover stayed thin at 1.9bn pesos.

The selling was mostly sparked by a steep slide for Filminvest Land after the gov-

ernment rejected a request for an environmental permit for a large project. The shares fell 50 centavos or 7.9 per cent to 5.80 pesos.

TAIPEI gained ground for the fourth day running, buoyed by hopes for an inflow of funds following the finance ministry's decision to raise the ceiling on single foreign fund investment.

The weighted index rose 58.48 to 3,255.78 in moderately active turnover of T\$117.6bn.

The electronics sector rose 2.1 per cent, with Compal Electronics up T\$4.5 at T\$105, Acer Peripherals surging T\$5 to T\$86 and Acer up T\$1 to T\$83. Taiwan Semiconductor added T\$5.5 to T\$124.5.

SEOUL ended higher as rotational buying of securities and construction shares outweighed early consolidation, while the government's financial reform proposals had little impact as the details had been leaked.

The composite index closed 7.67 higher at 766.06 while the sub-indices of securities and construction stocks rose 6.3 per cent and 4.7 per cent respectively.

KUALA LUMPUR was helped ahead by speculative demand for companies linked to the Bakun hydroelectric dam project in Sarawak. The composite index rose 8.86 to 1,126.53, as Ekran, the main promoter of the dam project, gained 30 cents to 5.75.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS										DOLLAR INDEX									
FIGURES IN DOLLARS UNLESS OTHERWISE INDICATED										US DOLLAR INDEX									
Country	Index	Change	% Chg	YTD	1Y	5Y	10Y	20Y	30Y	Country	Index	Change	% Chg	YTD	1Y	5Y	10Y	20Y	30Y
MONDAY, JUNE 2, 1987										FRIDAY, MAY 30, 1987									
Australia (78)	234.01	0.2	0.1	17.05	143.81	175.01	174.98	1.4	1.87	US Dollar	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Austria (24)	158.01	0.2	0.1	17.05	143.81	175.01	174.98	1.4	1.87	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Belgium (28)	247.20	0.5	0.2	22.47	221.37	217.24	217.24	1.3	1.35	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Brazil (30)	289.50	0.0	0.0	24.77	198.54	241.84	241.84	-0.1	1.35	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Canada (112)	207.10	0.7	0.3	18.03	182.52	185.88	206.53	0.8	1.89	French Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Denmark (2)	378.05	-0.3	-0.1	34.13	278.15	340.17	339.50	0.8	1.49	Italian Lira	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Finland (26)	270.08	0.9	0.3	245.18	198.88	242.36	239.46	2.1	1.55	Spanish Peseta	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
France (91)	213.42	-0.4	-0.2	183.77	157.17	191.53	194.94	0.7	2.91	Swedish Krona	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Germany (59)	209.11	-0.3	-0.1	189.86	154.00	187.88	187.88	1.5	1.51	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Hong Kong (69)	228.88	2.2	0.9	220.18	182.07	221.18	217.24	1.9	2.02	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Indonesia (27)	245.35	-1.0	-0.4	220.18	182.07	221.18	217.24	1.9	2.02	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Ireland (16)	338.38	0.0	0.0	306.12	249.92	304.55	316.66	0.0	3.08	French Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Italy (55)	377.68	0.2	0.1	79.50	64.48	78.58	111.08	0.6	2.26	Italian Lira	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Japan (65)	132.75	1.6	1.2	130.31	87.59	118.82	97.58	1.8	0.81	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Malaysia (107)	338.89	0.9	0.3	489.29	388.86	483.82	391.91	1.9	1.31	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Mexico (27)	320.15	0.4	0.1	145.66	109.60	145.66	145.66	0.0	1.21	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Netherlands (18)	302.57	0.8	0.3	33.36	27.45	33.44	330.40	2.1	1.31	French Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
New Zealand (14)	77.31	0.3	0.3	80.00	66.51	81.06	69.87	0.0	1.21	Gulden	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Norway (41)	313.19	0.9	0.3	284.36	230.85	287.01	304.21	1.6	2.02	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Philippines (12)	375.18	0.9	0.2	197.17	127.48	195.35	227.02	0.8	1.82	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Portugal (2)	313.79	0.0	0.0	289.17	251.47	355.18	301.21	2.1	1.18	French Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
South Africa (44)	353.32	0.7	0.2	300.57	260.34	312.95	295.43	0.4	1.18	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Spain (25)	243.91	-0.1	-0.1	221.38	179.55	218.20	246.54	0.0	2.43	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Sweden (35)	448.78	0.5	0.1	407.47	330.51	402.76	517.57	1.5	2.01	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Switzerland (36)	448.78	0.5	0.1	407.47	330.51	402.76	517.57	1.5	2.01	French Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Taiwan (43)	84.97	-0.8	-0.9	78.58	71.42	87.21	257.98	2.2	1.30	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
United Kingdom (212)	224.40	-1.4	-0.7	262.29	216.81	294.21	308.27	-0.6	1.19	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
USA (938)	343.87	0.0	0.0	312.23	253.09	360.41	343.87	0.0	1.78	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Australia (819)	314.67	0.1	0.0	285.70	231.74	292.39	284.28	0.1	1.77	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Europe (728)	256.75	-0.3	-0.1	233.11	189.26	230.41	238.90	0.0	1.67	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Japan (728)	369.30	0.5	0.2	352.55	285.98	346.47	395.57	1.4	1.86	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Pacific Basin (1608)	151.85	0.5	0.3	137.69	111.86	138.08	112.25	1.8	1.28	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Europe-Pacific (1808)	151.85	0.5	0.3	137.69	111.86	138.08	112.25	1.8	1.28	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
North America (762)	353.33	0.1	0.0	304.45	248.95	317.49	310.00	0.0	2.30	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
Europe Asia (514)	230.74	0.2	0.0	209.49	169.93	207.32	217.57	1.3	2.07	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
World Excl. Japan (3156.1)	21.89	0.2	0.0	280.55	232.43	278.24	278.44	1.3	2.70	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
World Excl. US (1577)	159.09	0.1	0.0	186.76	146.51	183.68	184.40	0.9	2.02	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
World Excl. UK (2259)	202.94	-0.3	-0.1	175.6	141.58	175.6	175.6	0.0	2.17	Swiss Franc	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
World Excl. Japan (1988)	202.94	-0.3	-0.1	175.6	141.58	175.6	175.6	0.0	2.17	Japanese Yen	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25
The World Index (2471)	366.92	0.0	0.0	312.23	253.09	360.41	343.87	0.0	1.78	Deutsche Mark	111.22	171.70	205.69	203.88	234.37	188.44	207.32	194.25	194.25

**Venture capital
Funding IT startups
in the US:
A record year**
Pages 2-5

FT
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Information Technology

Wednesday June 4 1997

The wide use of computers controlled by speech, rather than keyboards and mice, could eventually have dramatic implications in the office and home, reports Paul Taylor

A new era of voice computing

Tabular key switches, punch cards, tapes, keyboards and mice. The evolution of man-machine interfaces in the computer industry has been a slow shuffle towards an intuitive system that many believe will eventually be built around voice technologies.

Now, after more than 40 years of development, industry researchers believe they are close to reaching the 'holy grail' of voice technology - continuous speech processing.

If they are proved right, voice technology could finally begin to deliver on its long-promised potential to transform both personal and business computing environments and accelerate the integration of the computing and communications worlds.

"We believe speech is going to be the future of the user-interface with computers", says Jan Winston, world-wide manager for IBM Speech Systems.

Lernout & Hauspie, a fast-growing speech technology pioneer based in Belgium, sees the technology as a way not only to help eliminate barriers between men and machines, but also between men and their human counterparts. "Speech technology will enable innovations that can help us better understand each other - bridging cultures and bringing people together with little regard for the barriers of local languages," argues L&H.

Mr Bill Gates, Microsoft's chairman is also a voice technology enthusiast. "We may look back on the computers of today and say, 'Oh, they were the computers you couldn't talk to,'" he says. By extending access to computing, Mr Gates and others believe that voice technologies could bring forward the advent of ubiquitous computing and the day when there is indeed a computer on every desk and in every home.

Voice technology has, in fact, made significant advances over the past decade. Only 10 years ago, speech recognition demanded the power of a massive mainframe, now it is a viable option for some tasks on a desktop PC.

"Until a few years ago the processor was a bottleneck," explains Mr Gaston Bastiaens, president of L&H. While the arrival of Intel's Pentium processors have provided the desktop processing power, further advances in the statistical algorithms and natural language processing have improved both the quality and accuracy of automatic speech recognition software.

"Because of this a lot of applications now make a lot of sense," says Mr Bastiaens. Reflecting this, L&H's revenues jumped from \$7.7m to \$31m last year and its customer-list has grown to include a wide range of blue-chip clients such as Microsoft, Northern Telecom, Ford and Samsung.

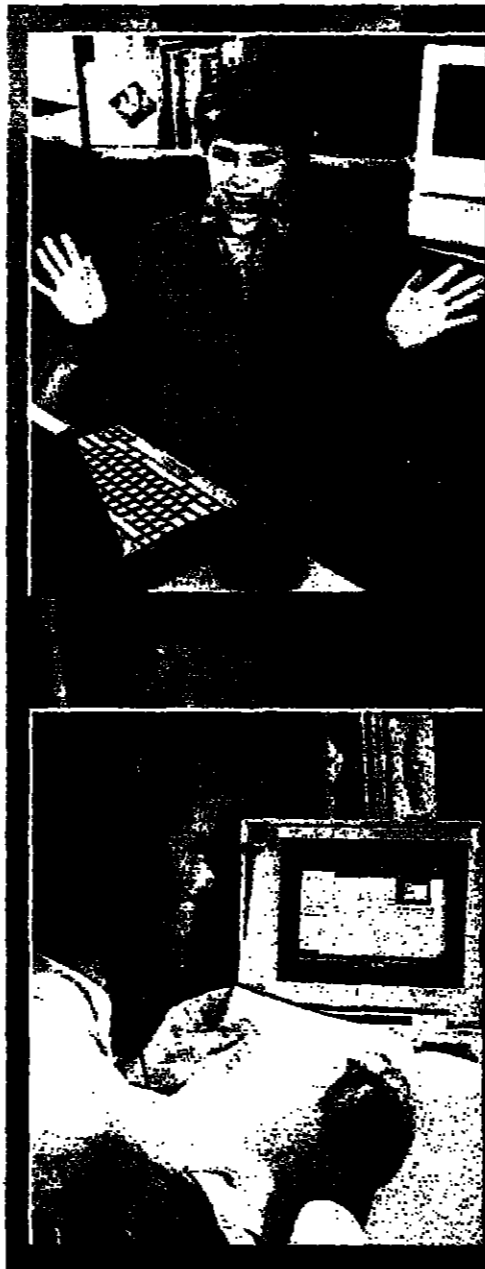
"Speech recognition has undergone a transformation in the last six months and it looks like more change is on the way," says Jody de Falbe of Talking Technologies International, a UK-based speech specialist and software developer.

For example, Kurzweil, the US-based software group which was recently acquired by Lernout & Hauspie, launched VoicePad in October. IBM countered with its Simply Speaking package, and Dragon Systems launched Dragon Singles.

This flood of low-priced consumer software - coupled with the gradual move to "voice enable" other software products - has helped raise the general awareness of voice technologies and led to predictions of an explosion of both business and personal use.

For example, IBM which also launched its high-end VoiceType 3.0 software last year, expects a million copies of voice recognition software to be sold by the industry in 1997, a ten-fold increase over 1996.

From a business perspective, there is another reason for business interest in voice technologies. It has long been recognised that people can speak faster than they can write and assimilate the spoken word more quickly than written text. For this reason, the core voice technologies - automatic speech recognition and text-to-speech conversion - hold



Dialogue between man and machine: with Philips' natural speech recognition technology, illustrated above, the dream of being able to communicate with machines through the power of speech is gradually coming true. Also inset, above, is IBM's innovative VoiceType connection for Netscape (top, left); in use, (lower left), is Dragon Systems' pioneering 'DragonDictate' speech software

the prospect of further significant increases in productivity.

Among the UK-based users of IBM's software are general practitioners, radiologists, lawyers and surveyors. "GPs dictate huge volumes of text each day and it may be more efficient to dictate some text to our computers, freeing-up administrators for more profitable tasks," says Dr Simon Berisford, a GP who is using the package with its add-on healthcare dictionary.

Similarly, in Belfast City Hospital's radiology department, VoiceType Dictation has been used to help speed up the delivery of information from the radiology department to the ward so vital decisions on treatment can be made more quickly. "Giving doctors keyboards would simply add to the many peripheral tasks we already perform, without contributing to, or enhancing, our skills as radiologists," says Dr John Lawson, consultant radiologist.

For IBM, which set up a specialist speech recognition team,

in the late 1950s, long before H.A.L., the talking mainframe in 2001, A Space Odyssey, Stanley Kubrick's film, popularised the concept of voice-enabled computing, the commercial acceptance of today's voice technologies is gratifying.

Early research at IBM and elsewhere focused on training the computer to listen for specific linguistic patterns in order to arrive at a statistical correlation between sounds and the words they represent.

One of the main methods called 'template matching' involved capturing and storing a dictated word in a computer database as an 'acoustical' image. In order for the computer to recognise a particular word or phrase among many, it needs to compare the pattern of the uttered word with all the stored patterns in the database.

Therefore, template-matching functions work well as long as the number of words to be recognised is limited, and the user speaks in a consistent manner

and inserts brief pauses between words. As Philips Speech Processing, a division of the Dutch electronics group, notes, "discrete, or isolated, speaker-dependent recognition systems generally recognise up to 1,000 words and are useful in very specific busy-hands, busy-eyes environments, for example, in luggage-handling systems, and quality-control departments."

The functional limitations inherent in template-matching systems have made this method of speech recognition unacceptable for most mainstream applications, however. The ultimate goal of speech recognition is to develop a machine or software program that is 'speaker-independent' - in other words, it can recognise anyone's speech without prior training, and can recognise any word, allow the user to speak at any pace, discriminate between commands, text, and user conversation, and work under any conditions.

An effective speech recognition system therefore combines voice recognition which enables a system to recognise the speaker, rather than simply responding to words being spoken; speech synthesis, so that the computer can 'speak'; and artificial intelligence, so it can make decisions and learn from experience.

In fact, large vocabulary speech-recognition systems, those with 20,000 words or more, have abandoned template-matching technology and now use 'phoneme' recognition. Phonemes are the smallest acoustical component of a language - there are about 80 phonemes that make up the English language.

"Phoneme recognition is the key to success in speech recognition technology, but it is not the whole story," says Philips. The solution chosen by the Dutch group uses a phoneme inventory or vocabulary containing all the words that a system can recognise, a pronunciation inventory, or speaker reference file in which a specific speaker's phoneme pro-

nunciations are stored, and a language model which comprises a statistical database that assists the speech recognition engine in recognising words.

Although most commercially available speech recognition systems use similar processes there are differences in the way the user can enter speech. Most current systems other than those developed for specific market niches, require the user to speak with short pauses between each word, a method called discrete speech recognition technology. In contrast, Philips claims its natural speech recognition technology allows users to speak naturally, as if having a conversation.

Meanwhile Massachusetts-based Dragon Systems launched what it claims is the first general purpose, large vocabulary, continuous speech recognition product in April. 'Dragon NaturallySpeaking' allows users to speak naturally and at a normal pace.

"When I first started in speech

Turn to back page of this Review

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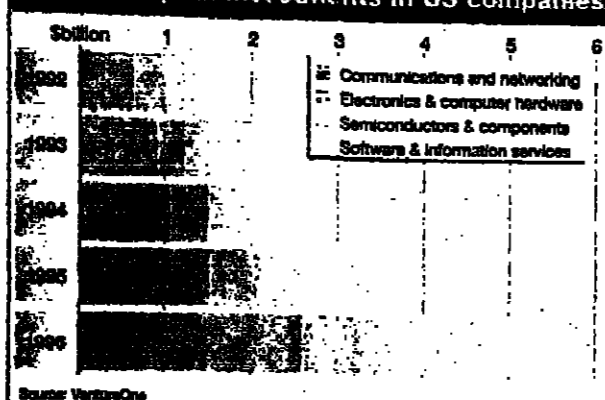
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IT and venture capital

FT-IT 3

Venture capital investments in US companies



FINDING IT STARTUPS

A robust market

From facing page:

research group, has found that IT companies are on average prepared to pay more than a venture capitalist for a given stake.

Mr Kramlich of NEA says: "I'm worried that these pools of capital are growing larger. The returns are going to attract capital. It's getting more competitive. People are criticising each other. It didn't used to be like that."

There are several manifestations of overcrowding. Venture capital firms, which in the 1990s typically formed syndicates to spread the risk they faced, now often seek to invest alone. That trend shows up in a drop in the average number of venture capitalists committed to a given company, from three, historically, to 2.4 in 1996. "A lot of the VCs have so much money under management that they can't afford to team up with others," says Mr Still.

Entrepreneurs are becoming more aggressive in their negotiations with venture capitalists. The public market for high-tech stocks, which sets the price entrepreneurs can achieve in an initial public offering, has risen since 1990 but for two interruptions. By 1993, according to VentureOne, the robustness of the IPO market was beginning to affect valuations for venture

investments in companies just before they went public. CheckPoint Software, an Israeli company which develops internet security software, went as far as hiring Broadway Associates, the advisory boutique, to manage an auction in which venture capitalists bid to invest in the company. Ms Cristina Morgan, head of investment banking at Hambrecht & Quist, says: "The VCs are having to pitch for everything, which is funny."

By last year, booming valuations were beginning to filter down to startups. Internet companies at an early stage last year tended to command valuations about a fifth higher than the historic average. There are some extreme examples. "One entrepreneur came into our office wanting a \$15m valuation," says Mr Draper of Draper Fisher Associates. "He had two employees and hadn't even started business yet."

Nevertheless, venture capitalists should not grumble too much. The valuations are a reflection of the returns that VCs have obtained in the 1990s. And the chutzpah of the Silicon Valley entrepreneur, which the VCs have themselves encouraged, drives the industry's vitality. To the extent that VCs are suffering, they are victims of success.

Leading US venture capital portfolios

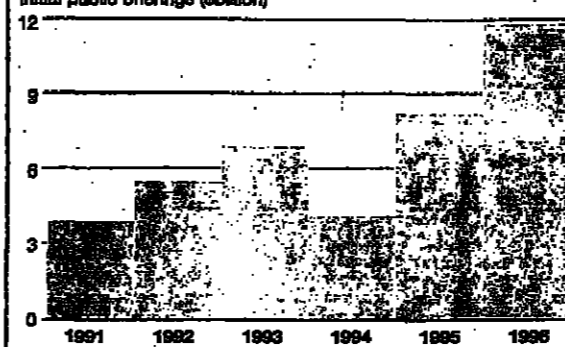
Venture capital companies ranked by number of 1996 portfolio Initial Public Offerings (IPOs)

Firm	Headquarters	Total IPOs	With board seats
Kleiner Perkins Caufield & Byers	Menlo Park	18	19
Sequoia Capital	Menlo Park	17	7
Advent International	Boston	17	4
Norwest Venture Capital	Minneapolis	15	10
Warburg Pincus Ventures	New York	14	5
Institutional Venture Partners	Menlo Park	13	8
New Enterprise Associates	Baltimore	13	7
Summit Partners	Boston	12	9
Hambrecht & Quist	San Francisco	12	1
Brentwood Associates	Menlo Park	11	8

Source: VentureOne Corporation

Venture backed IPOs

Initial public offerings (billions)



PROFILE: Ann Winblad

The Queen of Mesopotamia

Ann Winblad has some of the best contacts in the high-technology industry

Ms Winblad relatively wealthy. Nevertheless, Ms Winblad only found her ultimate meter in 1989, when she joined with John Hummer, a former professional basketball player, to found a venture capital partnership.

They remain outside the mainstream, partly because of their exclusive focus on investing in software companies, but also simply because of their location: now in Berkeley, soon to move across the bay to SoMa in San Francisco itself, still far from the epicentre of venture capital, further south in Menlo Park in Silicon Valley.

"There is something of a sheeplike mentality: breakfast at Buck's, lunch at the Sundeck or Il Fornio," says Ms Winblad of the meeting places down in Silicon Valley where venture capitalists usually evaluate entrepreneurs. "We are perceived as a bit of an outsider."

However, that is more the image that Hummer Winblad projects than the reality. Ann Winblad has some of the best contacts in the high-technology industry. For instance, in the mid-1980s, she and Bill Gates, chairman of Microsoft, were a couple, and the two remain friends.

Ms Winblad's clout helps attract managers, one of a venture capitalist's most important functions. She tells how she wooed Monica Nestor, a vice-president of marketing at Symantec, to Intrinsa, a software company in Hummer Winblad's portfolio which develops debugging tools for other developers.

"We have the best chance of attracting managerial talent. We help persuade managers to commit," says Ms Winblad.

She is keeping Silicon Valley's cradle rocking. "Here in Silicon Valley, people know that companies can do or die depending on the support they get from investors," she says.

- Nicholas Denton

BEYOND SILICON VALLEY • By Nicholas Denton

Untapped opportunities

It is not yet clear whether the Silicon Valley model for venture capitalism is exportable

The market for startup companies may be growing as

overpriced as that for real estate in Silicon Valley, but venture capitalists in search of investment projects enjoy two relatively untapped opportunities.

First, there are new clusters of information technology business developing outside Silicon Valley. Companies such as Progressive Networks, the developer of the RealAudio software for music and voice over the Internet, are springing up around Microsoft in Seattle. And the Internet makes it easier for software companies outside the US to distribute their products.

The growing viability of IT companies outside Silicon Valley presents an opportunity for expansion. "The venture industry will spread all over the world," says Mr Tim Draper of Draper Fisher Associates. "By 2016, venture capital will be everywhere."

One UK matchmaker reports the delight of Silicon Valley venture capitalists finding investment prospects for which, for once, their competitors are

not fighting. Second, there are new opportunities for investment in sectors such as retailing and media which are being influenced by information technology. Again, Kleiner Perkins has supplied a model. It invested in Amazon.com, the Internet book retailer, valued at about \$400m when floated last month.

However, neither of these new areas is particularly appealing to Silicon Valley venture capitalists. First, many VCs take after Mr Don Valentine, the founder of Sequoia Capital, in adopting an area code rule. This means that every company should carry a telephone number beginning with 408 or 415: in other words, it should be in Silicon Valley, close enough for effective supervision.

"You need to breathe the same air as the management, see the look in the management's eyes," says Mr Neil Weintraub of 21st Century Venture Partners. "You need to meet their customers face-to-face and smell their environment. You can't do that on camera."

International investments are more risky. For a start, they are far away. Moreover, nowhere has Silicon Valley's infrastructure of lawyers and banks such as Silicon Valley Bank, which specialise in startup companies. "You can move

VCs to other parts of the world, but it is difficult to move the other parts of the machine," says Ms Ann Winblad of Hummer Winblad Venture Partners.

Second, venture capitalists are uncomfortable with businesses which make their money out of consumers. They use a gold rush metaphor: the people who made the money were those who sold the shovels rather than those who dug for gold.

VCs typically prefer the companies which make the tools for business, rather than the businesses themselves. And there is the issue of familiarity. "VCs typically don't predict consumer behaviour very well," says Mr Jim Breyer of Accel Partners.

Finally, any expansion would put the structure of venture capital firms under strain. Even the leading outfits have fewer than 10 full partners. They meet, usually every week, to discuss each other's favoured investments. The carried interest, the 20 per cent of investment gains in a fund which a venture capital firm keeps, is traditionally distributed equally among the partners.

Many firms are reluctant to expand lest they spoil a culture which has served them and their investors well. NEA, for instance, will hire no more people than

can fit in its new office in Menlo Park. "What I wanted to do was to bound the growth of our firm with glass and concrete," says Mr Dick Kramlich of NEA. Venture capital is an art form and I didn't want the firm to get too bureaucratic."

Some alternatives to the standard partnership are emerging. Many VCs, intent on increasing their expertise but wary of overloading the partnership, are hiring consultants.

Institutional Venture Partners, for instance, has begun to adjust the rewards of its partners to reflect their individual performance, as do larger partnerships such as Goldman Sachs, the investment bank. And one VC, Advent International, is going even further. It has about 70 venture professionals spread widely. Of the 24 companies in its portfolio which went public last year, seven were from outside the US.

However, it is not yet clear whether the Silicon Valley model is exportable. Mr John Doerr of Kleiner Perkins, which, along with many other VCs, has its offices on the Menlo Park road, located along the edge of Stanford University, has his doubts. "We still get a lot of Japanese visitors who come to our offices and take pictures as if they could capture what goes into Silicon Valley by taking pictures on Sand Hill Road,"

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Focus on enterprise computing / interview

ANALYSIS • By Paul Taylor, IT Correspondent

Companies are asking tough questions about their IT systems

Cost-conscious users are looking for IT suppliers and partners who can provide them with end-to-end solutions to their enterprise-wide data processing, network and communications requirements

The world of corporate computing is at an important crossroads. The astonishing growth of the Internet and rapid adoption of Internet technologies within businesses is forcing companies to re-examine their operations and take a more holistic approach towards their IT requirements.

In the process, corporate boardrooms are investigating issues such as total cost of ownership, whether their current systems provide value for money and if they will be capable of ensuring their success in increasingly competitive and fast-moving global markets.

Spurred by concerns about the cost, performance and manageability of traditional client/server systems built around 'fat client' personal computers and local area networks, many companies are questioning their IT strategy. "Most people agree that it is time to take another look at client/server systems," says Mr Ray Lane, Oracle's chief operating officer.

As a result, some companies are swinging back towards a more centralised or 'enterprise' model of computing, sometimes based upon a three-tier model of database server, applications server and thin client. "The database side doesn't change," says Mr Lane, "the big change is in the middle tier."

But some analysts see the change as far more fundamental. "The return to centralised computing is a major earthquake, and as with all major earthquakes it will rearrange the landscape," says Mr Robin Bloor,

chief executive of Bloor Research in a report that was published last year.

"Some of the buildings will be left standing and others will not. Its tremors will be felt across the world by IT vendors, by all types of organisations and even by national economies." According to Bloor, there are three technology developments that are driving the return to centralised computing:

□ The emergence of 'thin

**FT
IT**

Enterprise computing

Here and on the following seven pages, FT writers highlight trends in corporate networks

client' hardware that equates to a stripped-down PC, consisting of an inexpensive CPU, memory, monitor, keyboard, mouse and ports/cables for printing and network connection.

□ The emergence of the Java language that can run in any computing environment that supports its

interpreter.

□ The maturing of massively parallel processing hardware, which can be used to replace multiple central servers and PC local area network servers with a single machine.

"It is the coincidence of these three technologies together with the growth and maturing of the Web that are the cause of the earthquake to which we refer and which will send us in the direction of the global integration of computing," says the controversial report.

Mr Bloor argues that the likely consequences of these changes include a gradual decline in the PC market as corporate desktop PCs are replaced by thin clients such as the Network Computer proposed by Oracle, Sun Microsystems and their partners.

At the same time, he predicts that PC operating systems such as Windows will be superseded by a browser supporting a Java-enabled environment and that most applications software will migrate to Java. Equally controversially, he suggests that the corporate server environment, which is currently very buoyant, "will consolidate into a small number of boxes and ultimately a single box."

Among the consequences of these changes he predicts that:

□ For corporate IT departments - the mainframe approach to computing is returning, but it will be 'a mainframe by other means'. There are significant opportunities to cut the per user IT costs. The emerging Web-based model of client-server

computing will need to be understood and implemented. Most organisations will need to pick strategic technology partners to help them through a possible painful migration period.

□ For companies as a whole - IT will become an increasingly more important component of the competitive edge. The level of outsourcing will increase, especially for facilities management. Most businesses will become Web-enabled - building intranets behind security firewalls. Organisations will need to rethink their businesses in most areas including location, office space, sales and marketing, distribution and personnel.

□ For IT suppliers - Those that depend most on the PC market are likely to suffer most. Those that depend most on the server and services markets are likely to prosper.

While other analysts may disagree over the extent of the swing back towards a centralised computer model, there is a broad agreement that some re-balancing of roles within distributed computing systems is desirable and, to some extent, already underway.

Indeed, although many people are convinced that the Oracle/Sun/Net-scape NC initiative was initially motivated as much self-interest as the desire to build an anti-Microsoft coalition as concern over factors such as cost of ownership, it has undoubtedly found a resonance among the industry's corporate customers.

Reflecting this, Microsoft,



Business pressures: a weary moment for a foreign exchange dealer, but there are headaches, too, for many IT systems managers facing intense demands for enhanced, enterprise-wide solutions

Intel and the traditional personal computer manufacturers, such as Compaq, have been quick to counter with their own proposals for cutting ownership costs and improving the scalability, manageability and reliability of PC-based systems.

Similarly, far from heading towards extinction, the reworked mainframe is enjoying something of a renaissance - especially for finance functions. In a report produced for IBM's S/390 mainframe business, Mr Dennis Keeling, a UK-based IT consultant, argues that "a mood of change sweeping the marketplace favours a re-examination of the mainframe server solution."

"It has been fashionable to think that large modern organisations don't need mainframes. But while street fashions may come and go without much negative impact on anyone, it really could be very damaging - even fatal - for any large business to try and be trendy by limiting or restricting the role of its mainframe systems."

He points out that in the last year all the leading software developers including SAP, Oracle and JD Edwards have created mainframe versions of their business applications packages.

"Big corporate users are replacing their financial systems, rather than upgrading them, because of the new

family of flexible packages now available," he says. "The mainframe's popularity is rising again as large corporates implement it as a key database server and, at the end of the day, the reality is that desktop systems have become a support nightmare, that open systems have not been scalable, and that the top limit for typical Unix servers is 1,000 concurrent users at best."

At the other end of the spectrum, the thin client debate has re-ignited interest in old-style 'dumb' terminals and revitalised vendors such as Wyse Technology which expects to sell as many as 250,000 of its WinTerm 'thin client' devices this year.

Meanwhile, the shift in market sentiment is also reflected in the search by companies for IT suppliers and partners who can provide them with end-to-end solutions to their enterprise-wide data processing, network and communications requirements.

This, in turn, is driving a new round of mergers and consolidation in the IT industry itself. Nowhere is this more apparent than in the networking equipment market - at the heart of the exploding Internet and intranet. For example, Cisco has emerged as the undisputed networking equipment mar-

ket leader through a series of acquisitions which enable the group to deliver a full range of networking technologies to its corporate customers.

Others are trying to emulate Cisco's success. For example, analysts view Ascend's recent \$3.7bn purchase of its fellow networking equipment vendor, Cascade, as an attempt to build another networking 'one-stop-shop'.

Among those IT suppliers facing the greatest challenge are Compaq Computer, Intel and Microsoft.

Microsoft has responded by attempting to extend the reach of its software even deeper inside the corporate IT infrastructure. In particular, it is attempting to strengthen the appeal and scalability of its NT operating system and back office suite of corporate applications by adding clustering and other technologies which large corporates say they need.

For his part, Mr Eckhard Pfeiffer, Compaq's chief executive, has said he aims to transform the \$8bn-a-year PC vendor into a top three \$40bn computer group by the end of the decade capable of competing with existing end-to-end suppliers like IBM.

Underscoring their determination to rise to the challenge posed by enterprise computing, Compaq and Microsoft have gone onto the

offensive. Last month as part of 'Microsoft's Scalability Day', the pair demonstrated that a distributed database running on Windows NT and 20 Compaq ProLiant could handle more than a billion transactions a day - sufficient for an enterprise class branch-banking computing system.

Just how successfully those companies - such as Compaq, Microsoft and Intel, which dominate the PC market - can adjust to the changes now underway in the corporate computing world remains to be seen, though all three have proven themselves well-able in adapting to and exploiting change in the past.

Mr Robin Bloor suggests that IT is in the midst of the 'third wave' of technology changes. The 'batch wave' of the 1950s and 1960s was dominated by a centralised resource that users shared in an organised manner. This was followed in the late 1970s and 1980s by the 'online wave' which distributed these resources to departments running mini-computers. Then came the 'distributed processing wave' of PCs connected to a corporate network which has been emerging since the mid 1980s.

In phase one of the third wave, PCs were hooked up to servers. Mr Bloor argues that the second phase, which we are now entering, will see the advent of thin client hardware and Java that will support "a more economic approach to distributed computing."

Phase three, he admits, is difficult to predict, but describes it as "the global integration of computing."

"The Enterprise by Other Means", Bloor Research Group, (44) 01908 373311. 'Managing Risk in Times of Change', IBM (44) 0990 390 390.

□ Corporate bottlenecks: see report, page 6
□ Emergence of the 'PC-mainframe': report, page 10
□ Rise of the virtual corporation: page 12

INTERVIEW • Rod Newing talks to Steve West, president of Hitachi Data Systems

Mix-and-match mainframes

Consolidation in the financial services industry is helping to boost the demand for new-style mainframes for large-scale computing

There are many similarities between the markets for high-end mainframes and personal computers: both markets are driven by the need for dollar-value and enhanced computing power.

"A PC without software is competing on price, features and function - and it is just the same when a data centre manager is buying a mainframe," says Mr Steve West, president and chief operating officer, Hitachi Data Systems (<http://www.hds.co.uk>). "The market for computers to run large databases and big applications is also highly competitive."

California-based Hitachi Data Systems (HDS) is 80 per cent owned by the Japanese electronics giant, Hitachi, with US systems integrator EDS owning the other 20 per cent. HDS meets the need for high-end computing with a range of IBM S/390 compatible mainframe computers and storage devices. Its Skyline range of mainframe computers are claimed to be the most powerful commercial computers in the world.

There are other similarities with the PC market: "In the mainframe market, nobody is exclusive," says Mr West. "Customers mix-and-match mainframes, too, based upon a notion of not getting tied to one vendor. However, it is a false sense of security since only we and IBM are in this market - and we offer the same architecture."

HDS has always concentrated on big-scale computing for large data centres. Three years ago, the market for large system computing was dying, but the S/390 market now has a strong worldwide growth in sales.

"We are comfortable with where the market is going and with our opportunities," says Mr West. "Our customers are large corporates with a need for enormous amounts of computing power in a centralised location. The risk of lost data in such large systems is very high. We have to push for 100 per cent reliability in

everything we do: the bottom line of our sales pitch is 100 per cent availability."

Fifty per cent of HDS's business is replacement of IBM or Amdahl machines. Mr West explains that the main reason for these wins is HDS's sharp focus on the market: "Large-scale computing is all we do. We are not an end-to-end solution provider and we are not the biggest, but we concentrate on building relationships with our customers."

HDS has a service organisation which focuses on helping customers to run their data centres better. "Customers want to concentrate on business applications, not technology," says Mr West. "We are here to help them succeed with their S/390 mainframe."

Many new mainframe sales are coming from telecommunications companies as a result of deregulation in the US and Europe. Itemised phone billing, for example, requires vast amounts of storage and computing power.

The consolidation in the financial services industry is also creating demand for new machines. Mr West attributes the increased demand for mainframes not just to their price/performance, but because more enterprise data is wanted by users in the central office, local/home offices and when travelling.

Fuge amounts of computing power are required to put information into digital format, to store, manipulate and deliver it to end-users in a "visually exciting and pleasing format."

The users' desire to gain access to information is driving everything in the industry, says Mr West. "We make the world's largest computers for commercial applications, connecting 50,000-60,000 users."

There are 149 Skyline machines worldwide: the cost of these machines is, typically, around \$5m. The largest customer is Deutsche Telekom which has 10 of

them. Their combined power is 8,000 million instructions per second. (Mips - the measure of mainframe computing power). That is roughly equivalent to 16,000 personal computers.

HDS is unashamedly concentrating on building large-scale machines with powerful processors. The company is dismissive about IBM's strategy of using cheaper, less powerful processors and linking together separate machines through its Parallel Sysplex clustering technology. "Do you want to pull a cart with a horse - or a thousand chickens," he asks?

The millennium date-change problem for computers is taking IT resources, so HDS is seeing a hiatus in software development. However, some users have brought forward their planned Skyline purchases, using the new machine for millennium data-testing, with plans to convert it to production use later.

In September 1996, OS/390, the mainframe operating system that used to be called MVS, was awarded Unix 95 Profile Brand certification by the X/Open Company, the Unix standards organisation, now part of the Open Group.

IBM and Amdahl are proclaiming the Unix 95 branding as a big step forward, giving their S/390 mainframe owners access to business packages, such as SAP, Oracle, Baan, JD Edwards and JBA, as well as Internet and intranet software, including Java and Lotus Domino. Mr West does not share their enthusiasm. "OS/390 is trying to put a square peg in a round hole. Unix applications are not efficient on the mainframe."

HDS manufactures the Osiris, a mainframe-based Unix super-server. "We know that Unix is running on an S/390 works, but it isn't successful in the market," says Mr West. "The architecture needed to run MVS is different from Unix. It's like putting lipstick on a bulldog."

HDS is looking at what is next in large-scale computing, although nothing will be announced for two years. "MVS, Unix and Windows NT will be the dominant operating systems at the



Steve West: 'The users' demand for access to information is driving everything'

turn of the century," he predicts. "There is an affinity between large-scale Unix and MVS processing. There may be an opportunity to sell a large-scale Unix box, similar to a mainframe, but with a processor and architecture designed to run Unix code."

"Current Unix servers aren't very big in terms of processing power. One box could replace a cluster of 10 Pyramid or Tandem machines."

A machine for Windows NT is further down the road. According to the agreement under which EDS and Hitachi purchased National Advanced Systems to form HDS, EDS is allowed to appoint the president and chief executive officer of HDS, and Hitachi appoints the chairman.

"Working for a Japanese parent certainly gives you a different perspective," says Mr West. "You need to have a sensitivity to other cultures and know the differences. However, their business objectives are no different from ours and they are wonderful people to work with."

"The new generation of Japanese executives has an international outlook: these people also have an ability to express themselves in English, which allows a close relationship."

Mr West believes that people who are involved in technology need to take an end-user viewpoint: "They just want data and don't care about the platform or access method. You mix-and-match mainframes to meet their objectives - and every customer is different."

Neil Melville of Nissan massive business interruptions. than 500 gigabytes of data. The Motors knew the obvious Melville had heard that EMCs combination of speed, mirroring benefits of consolidating all Enterprise Storage offered more the company's European data than just a shared repository, centres into one. Not so obvious but he was amazed at how were the enormous difficulties fast and trouble-free the of getting it done within system's platform independence six months and without made the migration of more



Neil Melville, European Data Centre Manager.



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ENTERPRISE SERVERS

Small but powerful

That old term, "mainframe" is obsolete, since it has been replaced by an "enterprise server" which is just like any other server, except that it is more powerful.

IBM announced last year that full Unix capabilities had been successfully brought to enterprise servers. Its OS/390 operating system had achieved Unix 95 Profile Brand certification by the Open Group, the Unix standards organisation. OS/390 includes the MVS operating system.

The mainframe has migrated into a large server, predominantly based on IBM's S/390 architecture, which is also used by Hitachi Data Systems and Amdahl, although other operating systems are in use.

Compact

The S/390 is a compact air-cooled machine that occupies an area one metre square and stands two metres high and can be located in an ordinary office environment. Multiprise 2000, the entry level version, starts at £80,000.

Shipments of S/390 systems are increasing when measured in Mips (millions of instructions per second, the measure of computing power), representing an 18 to 20 per cent growth in installed capacity.

With the announcement of Unix 95 branding, the traditional Unix client/server application vendors, including Oracle, SAP, Peoplesoft, JBA, JD Edwards and Beas were quick to announce that they now support OS/390.

SAP announced that Amoco, IBM PC Company, Lufthansa, Motorola and Carl Zeiss Jena were using their S/390 servers to run R3 packages and Oracle named Tesco, the UK retailer, as an S/390 client for its applications.

However, after investigation, it is obvious that their application software continues to run on Unix servers.

They are linked to Oracle or DB2 database software already written for MVS. However, Unix 95 branding has brought the required connectivity between the Unix applications and the S/390 databases.

As an enterprise database server, the S/390 offers client/server applications the ability to handle massive transaction volumes with consistent high performance and large numbers of users.

"The industry needs to manage the enterprise server better than the client/server explosion," suggests Mr Paul Clark, European managing director of technical services at Electronic Data Systems, the computer services company.

"Client/server was the answer to the spiralling costs of the old mainframes, but people now understand that the situation has reversed. They now look at their business processes and select the best solution for managing information and delivering data across the enterprise, which got lost in the euphoria to throw out the mainframe to reduce costs."

The enterprise server faces fierce competition for new applications on its own sites, but also has the opportunity to consolidate multiple servers.

"If you ask Digital, Hewlett-Packard, Sun or our own RS6000 group who their best customers are, they will also be my best customers," says Mr Arthur Parker, head of IBM's European S/390 business. "Most big organisations have everything and they are the biggest spenders. There is a huge opportunity to capture new applications from just the top thousand organisations in Europe."

Organisations are moving very fast towards new Intranet and Internet applications and transaction volumes will increase dramatically.

— Rod Newing

BUSINESS-TO-BUSINESS LINKS By Nuala Moran

Now the attention turns to extranets

Even the smallest companies will eventually be able to afford extranet connections with business partners

There have been startling cost-savings from the use of Internet technology to create internal networks - intranets - linking corporate islands of information, with some UK companies reporting a 1,000 per cent return on investment.

"This is the year of the intranet. Get one now or get trampled in the rush in 1998," says a new survey of 400 IT and business directors in the UK by PA Consulting Group. More than 60 per cent of the organisations surveyed are already developing or planning to develop a corporate intranet. "Internet opportunities are there for the taking - security worries are more about perception than reality," says PA. (<http://www.paconsulting.com>).

Electronic commerce: 'hesitate at your peril'

In a keynote speech at the recent annual conference of the Data Interchange Standards Association (DISA), Mr Harvey Seegers, president and chief executive of GE Information Services, said electronic data interchange (EDI) "will play a major role in enterprise computing, as the leading enterprise resource planning - or ERP - vendors have provided a de facto endorsement of Internet-enabled EDI, through their development of interfaces to support EDI transactions."

"Make no mistake. The electronic commerce revolution has already begun - and those

businesses that hesitate to using the Internet to establish extranets - networks which link one company with another over the Internet. This is redefining the supply chain, allowing customers or suppliers to serve themselves with information and conclude business transactions online.

A survey of 2,367 companies worldwide, carried out in the first quarter of 1997 by IBM, showed that 20 per cent had by then installed, or were planning extranets - advanced Internet applications involving the sharing of corporate data with business partners and suppliers.

Many companies would argue that they are already achieving this via Web sites. "The distinction to look for is that an extranet provides external users with books to



Harvey Seegers of GES: 'This is the year for action'

businesses that hesitate, do so at their own peril... because 1996 was the year for watching - 1997 is the year for acting - and 1998 will be the year for reaping rewards."

information that resides within a company's firewall," says Mr Paul Barker of the consultancy group, CMG.

The Internet is moving on from a static marketing tool, in which companies set up a Web site to advertise their wares, to providing a network which can support strategic applications. "Our survey confirms that the Internet has evolved to the point where it is being used for grown-up business applications, not just e-mail or Web surfing," says Mr Ivor Coleman of IBM.

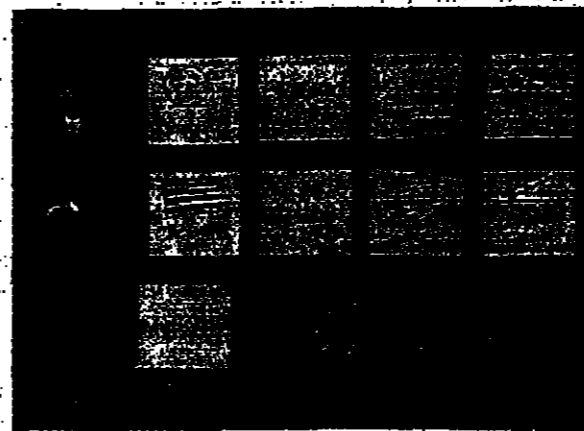
"Exchanging information over extranets costs less than exchanging it through older methods, such as faxes or voicemail," says Mr Andy Bush, intranet business manager at Sun Microsystems.

Most companies begin to apply the technology by giving extranet access to companies with which they have existing relationships. For example, when Sun outsourced its shipping to a third party, it established an extranet connection between the relevant databases of the two companies.

"Companies may have a few or many extranets, each representing a relationship with a particular supplier or group of suppliers. In the case of Sun's shipping partner, the relationship is one-to-one. But a reseller extranet, for example, may be available to dozens or hundreds of partners," says Mr Bush.

Perhaps the most famous example of this is the shipping company Federal Express, which gives customers extranet access to check the progress of their shipments.

Another example is the software company, Autodesk, which has opened up its customer services database to 4,700 distributors worldwide to answer queries and place their own orders, allowing Autodesk to redeploy 20 per cent of its customer services staff.



Giving staff a clear view of the business: Sir Peter Bonfield, BT's chief executive, has his own intranet site - see report, right.

In the UK, a survey of 400 IT and business directors carried out earlier this year by PA Consulting found that current use of the Internet is dominated by e-mail, access to external information sources and for advertising and promotion.

About 10 per cent of respondents said they are using the Internet for customer support, and a very small number (1-3 per cent) are using it for invoicing and payments, in some cases replacing existing electronic data interchange (EDI) applications.

"Extranets will allow close partners to work together in the same way as EDI helped in the 1980s by linking manufacturers together to suppliers. The difference is of course that EDI is a closed set of standards which required a huge investment in infrastructure," says Mr Colin Gouden, managing director of communications specialists, Conduit Groupware Solutions.

The low cost of setting up extranets compared to traditional EDI networks will lead to a great expansion in business-to-business electronic commerce, with even the smallest companies able to afford extranet connections. The term 'EDI Lite' has been coined to describe this development.

"Previously, only the largest companies could afford EDI, and the costs and complexity of setting up an EDI link pre-supposed an existing business relationship," says Mr Joe Alsop, president of Progress Software. "The Internet allows you to send a proposal to a vendor, you don't have a relationship

with. This will lead to a restructuring of the way we all do business. You can turn the terminal around and let your customers and suppliers serve themselves with information and conclude the transaction online."

Mr Alsop says Progress's WebSpeed software enables companies to carry out transaction processing via extranets. "There is a lot of talk about doing EDI over extranets, but I don't know of anyone doing it yet," says Ms Denise Fellows, director of consulting at the Internet service provider, Uninet. "The key thing is that there is now an understanding that firewall security is good enough to allow access to internal systems."

Regardless of how many parties have access to a company's data, security needs to be a joint effort, says Mr Bush. Each party involved has to have adequate security in place, to protect not only its own data, but that of its partners as well.

"Unless the correct measures have been taken, an internal security breach at one company could lead to security being compromised in a partner's network," he adds.

One incentive to develop an extranet is that it allows information technology departments to take back control of Internet applications, according to Mr Lalit Nathwani, European director of network services at Unisys. "In many cases, use of the Internet has led to the same sort of anarchy that was experienced when PCs were first introduced, with departments going out and

Continued on next page

Intranet brings big savings for BT

In just over two years, British Telecom has developed an intranet - an internal information network based on Internet technologies - which is now used by 55,000 people a day, with another 10,000 users due to go online this summer.

The fast-expanding system gives BT staff immediate access to information needed for customers' inquiries, allowing swift decisions to be made which, in the past, might have taken days to produce. In financial benefits alone, BT estimates its return on the £10m intranet investment at more than 1,500 per cent. Savings for the financial year just ended are £665m - ten times the figure originally forecast two years ago. Technical staff describe the intranet project as "the single most successful systems investment the company has ever made."

Home pages

BT allows departments to set up their own intranet home pages, or sites, which provide the information they believe colleagues require. The ability to track usage confirms what is truly valuable - and what is not. Popular sites attract up to 1.5m hits a month.

"Managers no longer have to act as information 'gatekeepers' - rather, they can concentrate more on building teams and solving problems," says Mr Charles Lowe, who is responsible for e-mail and intranet projects at BT.

In a new approach to information management, Mr Ross Chestney, BT's electronic communications manager, says that "before the intranet was launched, we used to have a 'push me' system that just pushed information out. We wanted to move to a 'pull me' system where an individual was able to identify and get the information they needed for themselves."

— Michael Wiltshire

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ENTERPRISE NETWORKS • By Julia Shillingford

The battle to unblock corporate bottlenecks

How can network managers ensure their systems are up to scratch? The short answer is: by spending money

Many different computing trends are conspiring to clog up networks. "The most important of these is the growth of applications," says Mr Carsten Wegmann, a research director at the Gartner Group. "Applications are not just growing, they are spreading. The network is becoming the computer."

Instead of being stored in one place, such as a mainframe, or split between client and server, data and software are being spread around the network. The most obvious example of this is the Internet, where a user jumping from one web site to another may visit multiple servers in minutes.

Such changes in the nature of applications are changing network traffic patterns. Instead of obvious links between users' terminals and a central system, users will be able to access any point on the network.

This not only increases the level of traffic on the network, it also makes it unpredictable. Small wonder, then, that the Internet is often slow, especially when the US

the network. This is because video, graphics and audio all consume large amounts of bandwidth. Graphics, and to a growing extent video and audio, are all part of the Internet/intranet experience.

So how can network managers ensure their networks have enough capacity? Like everything else in computing, by spending money.

"For the last 10 years, they got away with it by making incremental changes," says Ms Wegmann. "This time it's

Spending on networks will rise by 1,000 per cent in five years

different. Networks need to be completely redesigned for the new style of computing. Users will have to restructure their networks in the next three years, and we question whether they will have the financial capability.

"A lot of network managers haven't told their bosses what size of cheque they'll have to write."

Some users are adopting a wait-and-see approach. This is risky, according to Mr Wegmann: "Those who get

their feet wet with some of the newer network designs are taking the least long-term risk because it takes a long time to change a network."

He believes network managers need to adopt a new network topology, a new set of services, and possibly even a new set of vendors. There are, he says, three types of network:

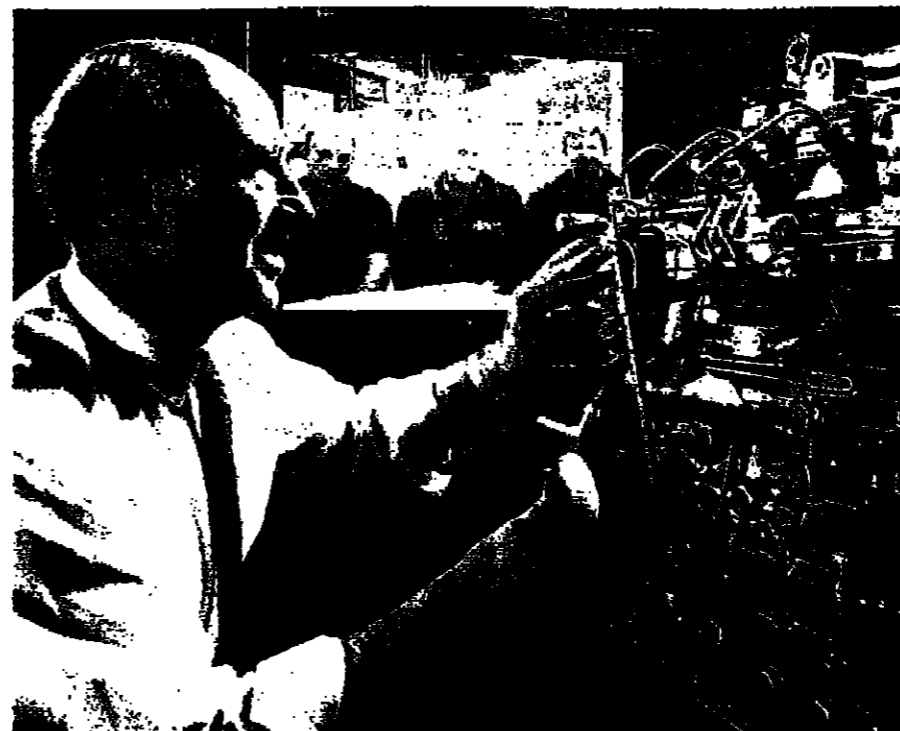
• The intra-enterprise network, such as the local area network (Lan) and the wide area network (Wan).

• Inter-company networks, such as those used for electronic funds transfer or electronic commerce.

• Business-to-consumer networks, many of which will be driven by the Internet.

Networks are getting cheaper, say researchers at the Gartner Group, but because of the large increases in capacity needed, companies will have to spend more. Gartner is expecting spending on intra-enterprise networks to rise by 300 per cent in the next three-to-five years.

Spending on inter-company networks will rise by 500 per cent in the same period, and on business-to-consumer networks by 1,000 per cent, albeit from a low base.



A technical problem swiftly solved: BT's videoconference link between the UK and South Africa

Nor will it just be finance companies reaching out to consumers - retailers will be getting in on the act, predicts Gartner.

The place on the edges of the network, not on the "backbones" that connect different Lans or sites, says Mr Wegmann. The type of high-speed networking solution chosen to address network bottlenecks will also vary in different parts of the network.

He thinks most corporates will choose Asynchronous Transfer Mode (ATM) - a superfast (155 megabits a

second or more) solution - for network backbones. Around the edges of the network, he expects them to use Ethernet or Fast Ethernet. And for Wans, he believes they will use a mix of frame relay, ATM or X.25, a long-established packet switching protocol.

Opportunities

He expects companies to buy some of the services they need from telecoms carriers. Because of deregulation, they are offering good prices for ATM, frame relay, and so on.

They may also use third-

party services to connect the company's intranets or to link the company to the Internet.

Mr Henry Ritson, a spokesman for Internet service provider UUNET PipeX, says that 64 kilobits a second ISDN (Integrated Services Digital Network) is satisfactory for the smaller corporate network, but a medium-sized company wanting to give users continuous online access to the Internet should install a dedicated leased line operating at anything from 64 Kbits to several megabits.

Because Internet traffic tends to occur in peaks, the

Delays are avoided

Videoconference networks have increasing applications, allowing speedy decisions in many areas of business. For example, BT Visual Business Area (VBA) has supplied video conferencing equipment for the Global Challenge yacht teams to use in each port of call. Pictured here is Paul Oswald, marine business manager for UK-based VarsityPerkins - which supplies the main propulsion engines for the entire BT Global Challenge fleet - taking part in a videoconference, between the UK and South Africa, with Alistair Hackett, the event's procurement and logistics manager, located in Cape Town. The video link enabled swift diagnosis of a technical problem, thus avoiding delays in the race

INTRANETS AND EXTRANETS

How to widen the corporate network

Continued from page five:

setting up their own Web sites.

"If you are going to set up extranets, the IT department must have overall control of the technical architecture. There will be a steep function increase in the amount of data going over the network, and if this is not taken into account, there may be problems with physical capacity of the network."

The advice to companies wanting to set up extranets is that they should use their intranet as a testing ground, to put the correct support policies and security mechanisms in place.

"You need to be sure you can satisfy your 'internal customers' over a network based on Internet technology before you risk opening it out to customers or suppliers," says Mr Nathwani.

Mr Bush suggests that

developing an extranet involves not only technical issues - companies accustomed to dealing openly with third parties "may have few or no problems in adapting to the extranet model of doing business". Other organisations may have to rethink their stance on issues such as data-sharing, he says.

A new study on the intranet market in the UK says that while only four per

cent of 787 large organisations have built an intranet to completion, a third of these organisations are in the process of building or preparing one.

The UK market for intranet systems integration and professional services will increase four-fold between 1997 and 2001, when it will be worth £1.2bn a year, adds the report.

Input is on <http://www.input.com/>

NETWORK CONGESTION • By George Black

Switching technology could help to overcome the serious problem of congestion on enterprise-wide networks in the next couple of years.

The spread of the Internet and private intranets has greatly increased not only demand for bandwidth but also made network traffic more volatile and unpredictable.

The popularity of "push" software such as Pointcast and Backweb and the development of Java-based downloadable applications will make the traffic flow even more erratic.

Mr Dean Bubley, technology manager for research group Datamonitor, says these new trends are forcing companies to upgrade their networks.

By moving from a shared to a switched network, they can give their staff many times more power to communicate with each other, with suppliers and customers and with online services.

Shared networks are starting to be adapted to a switched structure in order to be able to cope with the rise in network traffic and to make use of new, power-hungry applications. These include multimedia systems combining voice, data and video as well as Internet and intranet usage.

Routers have been the central devices for managing networks for the past decade, but they are relatively expensive and do not scale up well. Adding more is no longer a cost-effective way to meet rising demand.

Bridges which connect segments of a network are increasingly affected by "broadcast storms", disturbances by which a network can be crippled.

Switches look likely to supersede older network devices such as routers, hubs and bridges, at least in some parts of the network, because they can handle higher transmission speeds much better.

To strengthen overstrained Lans, many users

Switching revolution has begun

Conventional system routers may no longer be able to cope with the ever increasing demand for bandwidth

However, the networks of the future will require the functions of both switches and routers. This need to combine the two technologies helps to explain the frantic rush of takeovers and mergers in the networking sector.

Routers, invented 12 years ago, are likely to survive for many years, but routing functions may increasingly be built into switches.

Mr Chris Lewis, principal analyst at the Yankee Group research firm, predicts that conventional routers will be moved from the centre to the periphery of networks.

Routers vendors put a different spin on it. "Routing functionality will start to be distributed across the network to wherever it is most needed," says Mr Jan Schlosser, a product manager for Cisco.

Local area network (Lan) switches have only been available for around four years but have already made a big impact on corporate networks. Between 1995 and 1996 the size of the world market grew from \$1.4bn to \$3.7bn, according to Yankee Group.

First installed at layer two - the data link level of the International Standards Organisation's communication model - they are now moving into layer three, the network level.

To strengthen overstrained Lans, many users

have moved from the shared 10 megabits per second Ethernet protocol to switched Ethernet and Fast Ethernet which can provide 10 times that capacity.

Not far ahead lies gigabit Ethernet. The first switching products of this kind have already been announced and Forrester Research analysts forecast that it will solve the need for greater speed on corporate Lans.

Adherents of the alternative Token Ring protocol have also adopted a switched version which provides 16Mbps per user. Some have upgraded to a FDDI (Fibre Distributed Data Interface) token ring structure at 100Mbps. But neither Ethernet nor Token Ring on its own looks capable of supporting the high levels of data transmission which future applications will require.

While Ethernet will continue to be used at the desktop well into the next century, it is expected to lose ground among large users to Asynchronous Transfer Mode (ATM).

ATM is spreading more slowly than Lan switching. A few enthusiasts have installed 25Mbps ATM for workgroups, and financial institutions such as the Halifax and Nationwide building societies have begun to introduce ATM into their network backbones, but it is not yet widespread.

ATM can provide more

flexibility for networks, enabling them to call up extra bandwidth at will, but there is still a shortage of products and services.

Several telecommunications operators do provide ATM services, but users are restricted by the sparseness of operators' ATM-capable sites. How fast they extend their use of ATM will be determined by the commitment of the operators to supporting it.

According to Mr John Matthews, a principal consultant at research company Ovum, the progress of ATM is held up by lack of standards, which inhibits the development of products and means that some may not be interoperable.

Lack of standards also inhibits the creation of "virtual networks", which divide users into convenient workgroups and can thus improve efficiency.

Mr Matthews says the ATM Forum, which promotes the new switching technology, now has so many members that its decision-making process has been slowed.

"It has become more like a typical telecommunications standards body than the fast-track organisation which it was originally," he says.

As a result of these problems, many users are still wary of making a wholesale commitment to ATM. There is little evidence of successful installation projects and even less of a return on investment or a competitive advantage from it. Users are therefore approaching the need for change, cautiously putting in experimental islands of ATM.

Mr Matthews thinks this is the right way to proceed. "I would not advise a big move to switching at this stage. I would certainly look at putting it into the backbone but not to base the whole infrastructure on it."

THE HELP-DESK • By John Kavanagh

When Mr Toby Conibear received a call at his help-desk position from a user who was puzzled by a PC message saying the printer was not available, he knew the logical steps to take.

"I started by telling the user to go to the printer and call me from there," says Mr Conibear, from an unnamed UK company in Sussex. "After a long gap, the user phoned back to say: 'We've discovered the problem: the printer's been stolen.'"

This story endorses the view that good help-desks protect end-users from their own misguided attempts to help themselves - and, worse, each other. Mr Conibear's end-user had sat at his PC for some time, pressing various keys and then interrupted a colleague; their attention was focused on the PC and its message, rather than on the printer.

No easy job

In spite of its crucial role in keeping a company running and saving money, the help-desk often has a poor image

Companies seeking to save money by cutting resources to the help-desk - or not even setting one up in the first place - are making false economies, according to the UK research firm, Butler Group.

"Cost increases elsewhere often prove to be more than the savings on the help-desk, because people will generally take what they see to be the path of least resistance," says the Butler Group.

"Users will bypass an overloaded help-desk and waste time aimlessly trying various approaches. Sometimes they simply give up. However, they may ask a colleague for help. The

colleague may then make things worse - or add to the amount of time spent without solving the problem. Even if the problem is eventually solved, colleagues are very expensive replacements for help-desk resources, as their time is diverted from their primary task.

"If all this fails, users go direct to people they know in network support, system development or applications support. The trouble is that they tend to go to the person who helped them last time. This mismatch leads to even higher hidden costs, not least because these specialists are also diverted from their work."

A US Defense Department study supports these findings: it shows that for every minute users spend consulting the help-desk, they save seven minutes trying to solve their own problems.

The fact that user self-help costs are hidden, raises problems in financially justifying a help-desk, which is a highly visible and apparently expensive unit. What is more, the costs have increased significantly as companies have moved from central computing to distributed systems using a variety of operating systems and business software, says Mr Simon Scarrott, the principal consultant at the research company, Compas.

"Specialist knowledge bases have been diluted," he says. "Supporting a distributed set-up is 6.5 times more labour-intensive

Continued on facing page

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Enterprise computing

FT-IT 7

IT STAFFING ISSUES • By John Kavanagh

Trend towards contracting-out

The year 2000 computer date problem will bring the future of in-house systems development sharply into focus

The idea that IT employment will collapse in the next five years might seem unlikely as companies struggle with desperate skills shortages, but it is nonetheless gaining support as users seek new ways of achieving their IT goals.

The idea was proposed late last year by UK consultant Mr Philip Virgo after his research for the Institute of Data Processing Management's annual report on IT Skills Trends.

The number of IT jobs in the UK will fall by 60 per cent, from an estimated 250,000-300,000 to around 100,000, says Mr Virgo. He believes the combination of 1990s spending on moving from central computing to distributed client/server systems, followed by the

huge predicted costs of amending programs to cope with the year 2000 computer date-change problem and the euro currency, will cause companies to say, "Enough is enough".

He also argues that moves to Internet networks, based on Internet standards for access to corporate information, will reduce the need for networking and systems specialists.

These predictions were greeted with some scorn but they are now gaining support from several directions, albeit with qualification. The main amendment to the argument is that the bulk of IT employment will switch from user organisations to services companies as users give up the fight to recruit and retain experienced staff. Mr Virgo argues that the

collapse, he predicts is already in view: his research shows that IT departments have cut their staff by 40 per cent on average since 1991, largely because of the recession and contracting out.

Separate research bears this out. In January, Delphi, the IT services group, surveyed 275 companies in the UK and found that the number expecting to cut IT staff had risen from 14 per cent to 24 per cent in a year.

In addition, a third of companies reported no skills shortages and a further 16 per cent felt the problem was easing. Even so, there was expected to be a net increase in IT staff over the next two years, although the average came out at less than six per cent.

Research group CSC Index, in an international study sponsored by 500 top companies, goes as far as to predict that "the year 2000 and other external pressures will force more than half of all information systems

departments to move out of systems development between now and the turn of the century".

The year 2000 problem will bring the future of in-house systems development sharply into focus, says Mr Brian Morris, author of CSC Index's report on the topic.

These views have now gained endorsement from Dr Paul Strassman, IT guru, author and consultant formerly IT director at Kraft Foods, Xerox and the US Defense Department. He has long argued that the benefits of IT investment are difficult to measure and, indeed, that IT has done little to improve business performance. In his new book, *The Squandered Computer*, he backs the view that spending on the year 2000 problem will make senior executives look closely at their IT investments.

Whether such spending reviews will bring a halt to investment, remains to be

seen; what seems more likely is a continuation of the growing 1990s trend towards using outside help in some way.

In the UK, a quarter of all IT is now contracted out, according to a new study by Professor Kit Grindley of London School of Economics for the research firm, Compass. This compares with less than 15 per cent in 1993. Scandinavia is rapidly adopting this way of working, with the amount of IT contracted out moving from less than five per cent to more than 20 per cent in three years. In Germany, which has a do-it-yourself tradition, growth has been less but the amount now contracted out is approaching 20 per cent.

Prof Grindley points to "the acceptance that in-house staff are no longer the best source of up-to-date knowledge and that a contractor can be a business partner, rather than a preying supplier".

His research shows an

even more marked move towards program packages for business systems, rather than systems developed by a company's own staff: more than 45 per cent of business software now in use was bought as a package. In the UK, this has increased from less than 25 per cent in 1993.

Prof Grindley concludes from these findings that "this is a clear indication that programming - and re-programming old programs no longer understood - is proving too difficult for business".

All this points to a significant shift in IT employment towards the services sector, which is currently booming and, indeed, held back by skills shortages: the Computing Services and Software Association in the UK says its member-companies have a 10 per cent staff shortfall.

The biggest European-owned IT services group, Cap Gemini, is seeking 1,000 new staff in the UK alone this year, to add to its existing 4,800 people. The new recruits will include 300 Oracle specialists and 200 new graduates.

"We are turning business away because of shortages of specialists in Oracle, object technology, Informix and even Cobol," says recruitment manager, Mr Kieran Norris. "This boom has been going on for five years and we can see it continuing way beyond 2000. That's a long time in the IT industry."

Elsewhere, Oracle itself is seeking 200 new graduates in the UK this year. CMG, which launched a recruitment campaign for Cobol and PL/I skills for year 2000 work a year ago, has increased its target from 30 to "several hundred" in the next three years.

The move towards Internet/extranet systems (see page 5) has created yet another breed of IT specialists, comments Mr Craig Coverman, managing consultant at Longbridge International.

"As prices increase for these skills, technical people are drawn into the market or they re-train to take advan-



Kit Grindley, Professor of Systems Automation, London School of Economics: in-house IT staff face tough problems

tage of higher salaries," says Mr Coverman.

Such demand does not suggest a jobs market collapse, although services companies supporting many customers need fewer staff than those customers combined. However, today's des-

perate skills shortages and the not-unrelated speed of moves to external services suggest that staffing issues, at least among users, could be well on the way to getting sorted out - one way or another - within the next five years.

HELP DESK'S ROLE

'The centre of the world' for IT users

From facing page

than a centralised arrangement, on average."

This dilution of knowledge also makes it increasingly unlikely that the person answering the telephone can solve the problem, again increasing the costs.

Ovum, the research group, says the cost of handling a query about a business system quadruples if the person answering the telephone has to refer the problem to a supervisor - and the figure quadruples again if the query then has to be passed to the system developer.

Another issue is that IT staff regard help-desk work as a deviation from their main career path and even as a dead-end, says Mr Duncan Brown, a Ovum senior consultant.

In addition, those working on the help-desk need not

only technical expertise but also personal and communication skills, especially tolerance and patience, according to Mr Richard Forhan, a manager at the recruitment company, Hunterskill Howard.

Reactions

"You get irate users who think their personal computer has stopped working when, in reality, they've forgotten to switch the screen on," he says.

"People in sales or in financial dealing rooms need any problem fixed immediately: they can put a monetary value on downtime. So here is an operation which is crucial for keeping a company running and saving money, yet has a poor image and is seen as costing money."

Mr Brown at Ovum says

companies need to work on the image: "There's a case for setting up at least awareness-training for IT people. It's also a good idea to get the experts to sit on the help-desk for an hour: they quickly see how hard the job is."

The UK IT Skills Forum, sponsored by leading IT suppliers and users, agrees: "The help-desk should be seen as 'the centre of the world' for users and technical staff: the source of solutions, not a poorly resourced add-on. It should therefore be part of processes such as financial control and change management."

Making the help-desk responsible for IT asset management also ensures that it remains central to the IT department, the Skills Forum says, because technical specialists have to keep the help-desk

up-to-date on network changes and new users.

The resources and productivity issues are being tackled by the growing number of companies offering systems to automate many help-desk tasks. Companies have sprung up specialising solely in this area.

Expansion

In the last two months, the computer manufacturer Hewlett-Packard has announced its intention to take over a Netherlands specialist, Profin, while US supplier Onyx has opened in Europe with expectations of doubling turnover to almost \$20m this year after growth of more than 400 per cent in each of the last two years.

Help-desk systems typically record queries and provide statistics, maintain IT asset registers and help

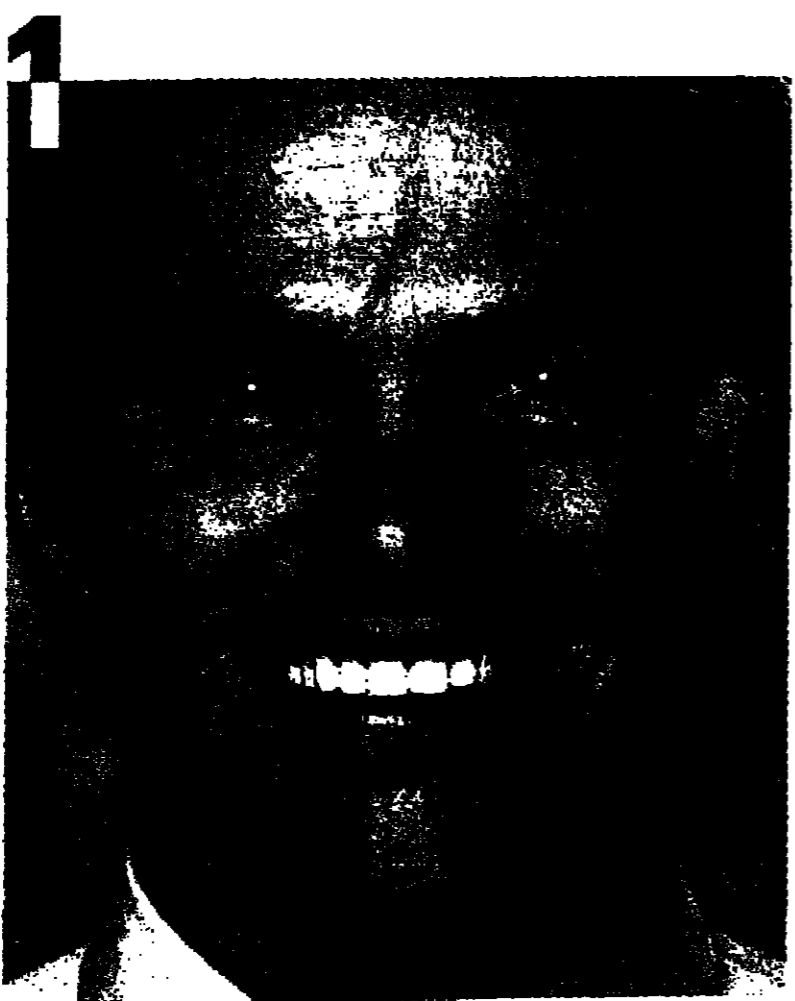
solve problems by holding details of solutions. Databases of known problems and repairs to popular software products, usually provided by the product suppliers, can be loaded into the problem-solutions database.

Gartner Group, the research consultancy, has found that such systems are likely to increase help-desk efficiency and effectiveness by 50 per cent in the first year.

MagicSolutions, a leading supplier, has customers beating this figure. At Readers Digest, for example, automation has enabled the help-desk to treble the number of calls handled.

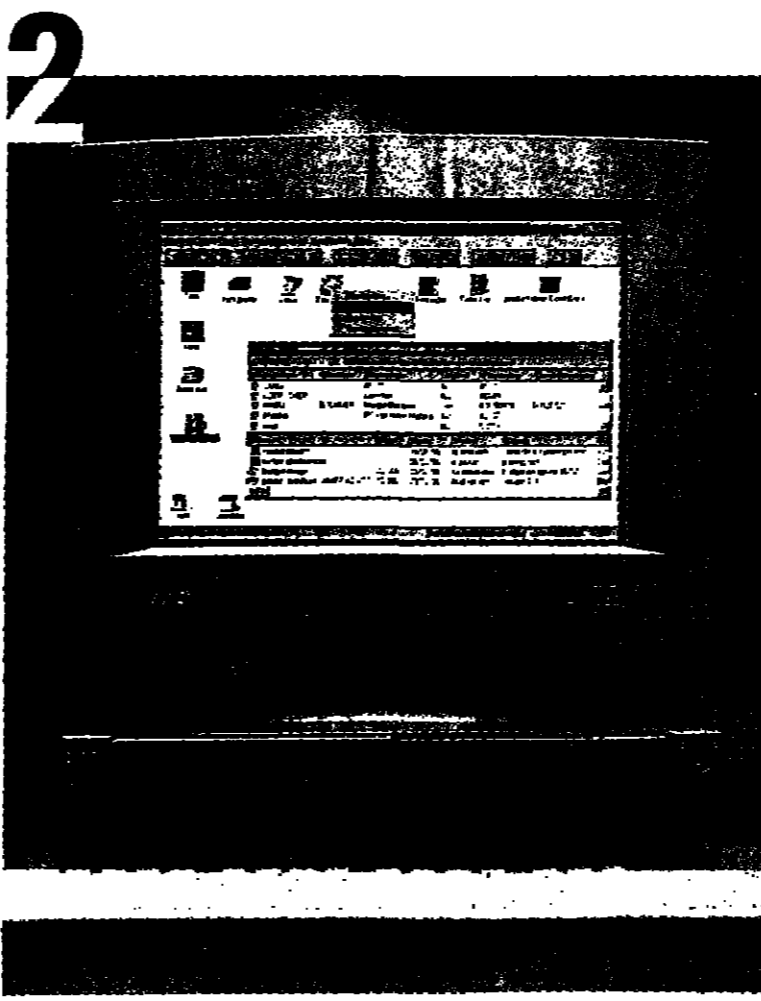
Such findings are just what help-desks need as they struggle to gain attention and respect from their end-users, their IT colleagues and senior management.

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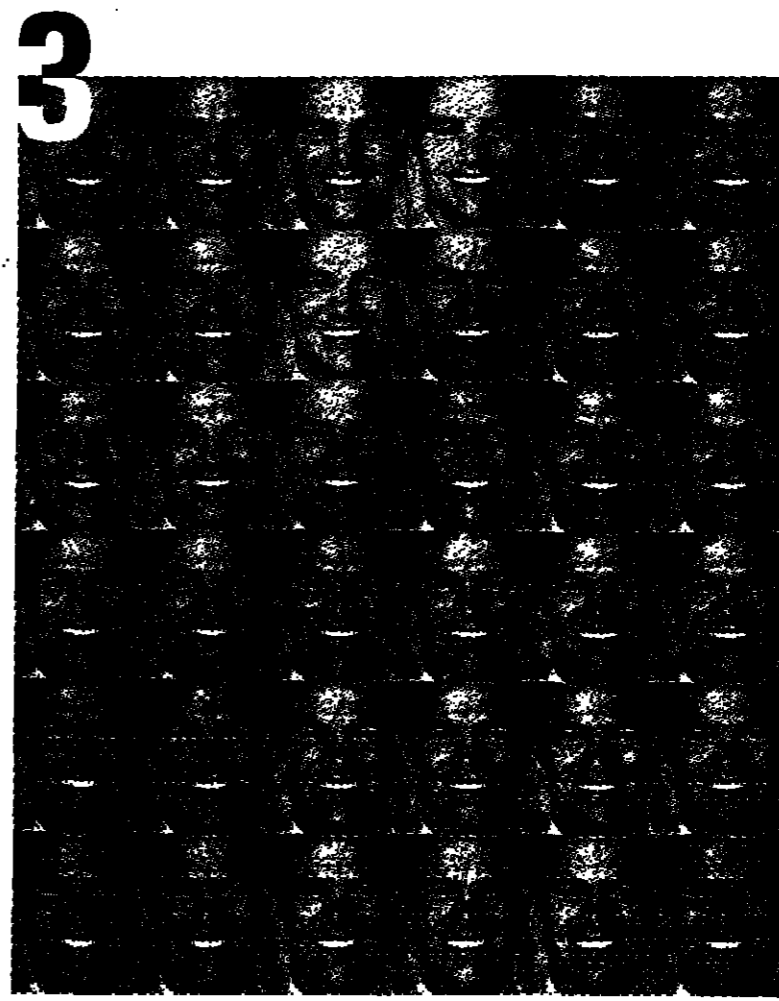
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12 FT-IT

Enterprise computing

The search begins

Today, the FT-IT Review launches a competition to find the FT Business Web Site of 1997. The FT is looking for organisations which have used their web site to achieve commercial advantage in their particular market and can display evidence of the following:

- ☐ Business transformation.
- ☐ Innovation.
- ☐ Measurable financial benefits.

There will be category prize winners and an overall winner which will be named as 'FT Business Web Site of 1997'. Winners will be announced at an awards ceremony in November 1997. Details of the winning entries will also appear in the Financial Times.

Competition entries are invited via the web address (below) for the following categories:

- ☐ Finance.
- ☐ Large organisations, (excluding those in the finance sector).
- ☐ Small and medium-sized organisations, (employing under 250 employees).
- ☐ Public sector.
- ☐ Not-for-profit organisations.

Full details of the competition



Sponsored by UUNET UK

plus a question-and-answer facility for potential entrants and an entry form can be found at the web address, below. The competition is open to companies in and outside the UK that fall into the categories, listed left.

Entrants' web sites must have been established before January 1, 1997. The deadline for final entries is July 31, 1997. Entrants' claims must be substantiated, if shortlisted, and candidates may be required to present to the judging panel, either in person or by videoconference, in September.

Details of the competition, which is sponsored by UUNET UK, Europe's largest internet service provider, are also appearing in this month's FT-IT colour magazine, *Doing Financial Business Online*, published in conjunction with *net* magazine.

For full competition details, see the web site: <http://www.uunet.pipex.com/events/ft/>

NEXT MONTH'S FT-IT REVIEW

IT in financial services

The July 2 issue of the monthly review will focus on key application areas for computers and software in banking and financial services. Topics will include:

- ☐ The impact of electronic commerce
- ☐ Payments systems and smartcard technology
- ☐ Insurance on the internet
- ☐ ATMs and banking hardware
- ☐ Telephone and home banking
- ☐ Cheque processing systems
- ☐ New dealer room systems
- ☐ Call centre applications
- ☐ Accounting packages
- ☐ Electronic financial information services.

For more details about the monthly FT-IT Review, see the information panel on page two of this issue.

YEAR 2000 DATE SWITCH • By Nuala Moran

Companies face threat from their external business links

Businesses may feel confident that their computer systems will be ready for the year 2000 date switch. But with the rapid growth of electronic commerce, how can they ensure data from external sources is also date-compliant?

Those organisations in the throes of preparing computer systems for the year 2000 may be forgiven for feeling smug that at least they are on the road to compliance, given the indications that many businesses have yet to recognise the threat, let alone act on it.

But in a networked world, ensuring internal systems are adapted to handle the date change will not fireproof a company against 'the Millennium bomb'. To avoid problems, all data from external sources must be compliant, as must all systems to which data is transmitted.

"The irony is that companies are focusing on changes to internal systems that are not the most important element in avoiding Year 2000 problems," says Mr Martin Caddick, practice manager for Year 2000 business at the consultancy, DMR.

"Traditionally, IT has had an internal focus. IT departments concentrate on things in their own domain - 'We own this application: we'll fix it.' Many are taking the same approach with the date change."

But in the race to be compliant, this is a misuse of resources. "Rather than dealing with the Year 2000 prob-

lem, an application at a time, companies need to assess what has to be done in terms of business processes. They should track data through from one end of the process to the other, and consider whether it can move through all the interfaces between systems," he adds.

Broad impact

The Year 2000 problem arises because most older computer systems use only two digits to designate the year. Unless they are changed, systems are likely to respond to the start of a year ending with the digits 00 by assuming there is an error and stop working, or interpret the year as 1900. This will invalidate all kinds of date-related calculations, sort routines and indexing procedures.

The Edifact standard for electronic data interchange uses only two figures in the date field, making it inevitable that many computer-based trading links will be affected.

So it is not sufficient to ensure internal systems are compliant. Companies must collaborate with all partners who have interfaces with their systems to agree how to handle the date change.

BACS (Bankers Automated Clearing System), which handles all transfers of money between banks, has, for example, told all its data partners that it intends to take a windowing, or logic approach to handling the date change. It will expect data in the existing format, that is, with two figures in the date field, and will be responsible for inferring the correct date.

The alternative to the logic approach is to expand the date field to four digits to make the year unambiguous. "The changes that are required are not difficult, but you need to agree a common strategy for each interface," says Mr Caddick. "And you need a strategy for external interfaces before you go making changes to internal computer code."

Putting the focus on external interfaces will make it easier to get directors to take the Year 2000 problem seriously. Senior managers can appreciate the impact that the failure of external business links will have on the company, and will be more worried by this than the issue of whether an internal application is date-compliant.

Mr John Secker, director of the UK Millennium Practice at the outsourcing company, Origin, agrees that the impact of Year 2000 on trading links "will be very serious".

He adds: "There is less risk from 'bad' [non-compliant] data getting into your system and causing a problem than that good data you send out is not dealt with because the receiving system is non-compliant."

The Millennium Bomb

Jan 1 2000

42 to go

regard suppliers as part of their internal organisation."

Although the modifications required to ensure that interfaces continue to work are straightforward, it is very hard to test the changes unless they are tested in a live environment. Setting up a full environment to test interfaces will cost a large company tens of millions of pounds.

Difficult issue

Nor is it enough to ensure that suppliers are Year 2000-compliant. If customers are affected it could have an equally serious effect on your business. "It may be more difficult to approach customers than suppliers on this issue, but you need your customers to stay in business, too," says Mr Secker.

"If you are a big corporation - or a government - you can dictate how you make the changes," says Mr James Johnson, director of Global Renovation Centres for the Year 2000 at EDS. "But if a system you are sending data to is unmodified, you have no choice but to continue to provide the

data in the format expected. This is one of the key reasons why EDS believes it will be one of the leading players in the 'Year 2000 industry'. We're one of the few companies that can work with a customer and its vendors, if appropriate, in a beginning-to-end solution."

There are indications that companies are beginning to realise they should not view Year 2000 compliance as an internal issue. In the UK, BT has taken the strong-arm approach to ensuring all suppliers are compliant and will involve them in its testing programme which begins later this year.

Lloyds TSB has set up teams of senior managers to handle the delicate business of ensuring anyone with whom the bank has electronic links is taking an agreed approach.

Meanwhile, Railtrack is trying to persuade UK rail companies to co-operate in dealing with the Year 2000 problem. It wants an industry-wide agreement on the format for date-compliance, and will require key suppliers to demonstrate compliance.

RISE OF THE VIRTUAL CORPORATION • By Philip Manchester

The full impact of Internet-based 'electronic' commerce will take years to unravel - but some certainties are evident. Working practices, the relationship between suppliers and customers, and, indeed, between suppliers and their employees are set to change.

It is also likely that businesses will continue to evolve into more flexible - and effective - organisations. They will, in the cur-

The question is not if, but when

Competitiveness plus changes in markets, the workforce and working methods are heralding 'virtual' corporations, as technology allows a greater range of business options

rent jargon, become 'virtual corporations'. The consultancy, Price Waterhouse (PW) defines a virtual corporation formally as an organisation which "co-ordinates economic activity to deliver value to customers using resources outside the traditional boundaries of the organisation."

Mr Colin Price, a partner at PW and author of a recent study on virtual corporations, says that the trend towards the virtual corporation is the continuation of a process which began 20 years ago.

"Until the oil crisis in the early 1970s, the dominant theme in business was that you became more profitable by being bigger. But over the last 30 years, the emphasis has changed from scale to scope. An organisation can have a lot of scope without being big," he explains.

This shift in emphasis led business through a series of changes from downsizing, through total quality management to outsourcing. Mr Price sees the emergence of the virtual corporation as an inevitable continuation of this process.

"The question is not: is it going to happen? It's when is it going to happen? There are two drivers and two enablers that are pushing it along. The drivers come from changes in the business environment. Globalisation and competition are forcing companies to stop doing what they are not outstanding at."

Secondly, they need to reach new markets - which leads them into more partnerships and co-operative agreements. "The enablers are new ways to exploit human resources more effectively - teleworking and outsourcing, for example - and an information technology infrastructure that lets companies operate as 'intelligent enterprises'," says Mr Price.

There is plenty of evidence to suggest that the process is well advanced. Examples of a move to more flexible organisational structures are

common: "Look at the Ford Motor company. In 1980, it made about 87 per cent of a car itself. Now it only makes between 30 and 40 per cent."

"Or consider the US insurance company, General Life; it has only 14 full-time employees and a few part-time students," says Mr David Green, managing director of computer software company, Sapiens.

He notes that his own

company has increasingly relied on partnerships with other suppliers to broaden its market - and to keep a competitive edge. It has become part of a 'virtual' network of suppliers.

"We concentrate on our core software competencies which are rapid application development tools and Year 2000. But we come up against competitors with a wider range of services and products. So we have set up alliances with organisations to cover the other areas."

The trend for companies to form alliances is measurable. According to Mr Price of PW, a recent survey of FT-SE 100 companies by Kalchas found that the number of formal equity alliances has grown by 55 per cent in the last five years. It also found that the number of co-operative agreements to share or develop technology between companies had grown by 200 per cent in the last decade.

Competitiveness and changing markets are only part of the story, however. Changes in the workforce and working methods also favour the trend towards virtual corporations. Teleworking centres, home offices and flexible working practices all help to make it possible. But the most significant advance is evolution of the technology infrastructure needed to support more flexible ways to organise. Global networking through the internet has created an environment which makes it possible.

Indeed, the barriers are no longer seen as technological.

"Our experience shows us that the big challenges are not technical - they are cultural. They are about how a company values itself and finds where it can make its contribution," says Mr Glenn Osaka, enterprise systems general manager at Hewlett Packard.

"The technology allows for a greater range of options for organisations. They can outsource as much or as little as they like and still keep control."

Predictions

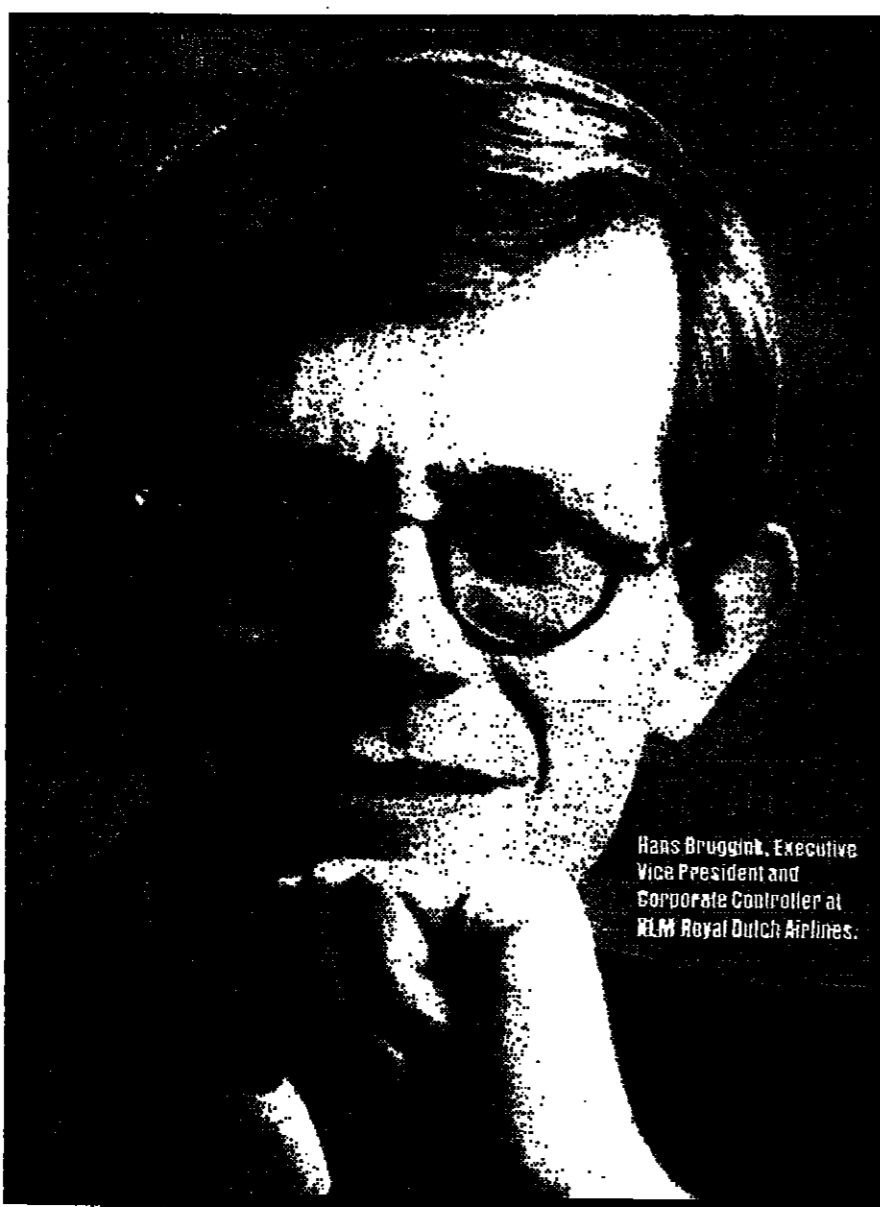
Mr Smith of PW points to the non-technical implications of virtual organisations and warns of potential problems: "There are some important questions that need answering. How do you build a cultural identity for a virtual corporation?"

"How do you build software systems that span enterprises?"

"I also have some reservations about teleworking. But the virtual corporation model is going to dominate." Mr Osaka of Hewlett Packard sees the shift to virtual corporations as the beginning of much bigger change. "We are right at the beginning of a major transformation - not just to commerce and companies," he says.

"When you transform corporations, you also transform economies. This could change the basis of economic power. Relationships change - between employer and employee, between supplier and customer."

Software Flyer



Hans Bruggink, Executive Vice President and Corporate Controller at KLM Royal Dutch Airlines.

The airline business is one of the most competitive on earth. So to ensure their continued success, KLM Royal Dutch Airlines brought Computer Associates onboard.

With CA, KLM can take advantage of the world's most advanced client/server financial software: CA-Masterpiece®.

As Executive Vice President and Corporate Controller, Hans Bruggink says, "KLM is an international business with offices all over the globe. So we needed financial software that was multi-language and multi-currency. In both cases, Masterpiece fit the bill."

What's more, Bruggink appreciates the fact that CA-Masterpiece operates in 'real-time', giving his staff immediate access to the information they need right from their PCs.

Perhaps best of all, Bruggink says, CA and KLM worked together to customise CA-Masterpiece to precisely fit their needs: "CA made sure they had all the input they needed to tailor Masterpiece to our specific requirements. And they continue to refine the software to keep up with the new demands of our business."

Sounds like a good partnership. "Flying sky high," says Bruggink. Spoken like a true airline executive.

COMPUTER ASSOCIATES
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VOICE TECHNOLOGY

Speech-controlled computers

From page one:

recognition 25 years ago, there was some doubt that this day would ever come," reflected Mr Jim Baker, co-founder and chief executive of Dragon, at the product launch.

It was the need to deploy a continuous speech system which led to L&H's recent acquisition of Kurzweil for \$55m. Analysts believe that deal will allow L&H to 'short-circuit' development times and bring its large vocabulary, speaker-independent, continuous dictation product to market at least six months earlier.

Systems incorporating natural speech recognition technology have the greatest potential to become accepted by users because they allow normal speech. However, there are already quite a number of application areas and lines of business where

speech recognition is being used. Philips divides this application area into three categories:

- ☐ Discrete speech recognition systems: These applications allow users to control a computer, machine or appliance by saying simple words or short phrases, such as "start", "stop" and "dial".

They are already in use in a wide variety of applications, such as telephone banking, quality control systems, and parcel-handling systems.

Word-spotting systems: These systems allow the user to say a complete sentence, out of which the computer will pick the words which are important to carry

out an action or provide the user with the appropriate information. For example, Philips has a train timetable information system that works on this basis.

Natural speech recognition systems: The most advanced category of voice command applications is one that enables the computer to take whole sentences, interpret them, and perform the requested tasks.

As with IBM, Philips has also moved towards integrating its technology in other applications. The group has a radiology version of its system working in several hospitals and says there is growing interest in areas such as banking and finance.

Philips's system works in a slightly different way from those from IBM, Kurzweil and DragonDictate in that it sends the continuous speech signals to a special PC server, attached to a local

area network. For niche specialist markets, such as medicine, this 'batch' approach is quite acceptable although the company acknowledges that there is also a demand for immediate real-time voice recognition.

"Speech recognition is an evolving technology that will continue to improve," says Philips. "Gradually, the dream of being able to communicate with machines through the power of speech is coming true."

While the day when everyone will be able to use natural speech as a substitute for a keyboard and a mouse, may still be some way off, the implications could be dramatic. "The whole way of working and communicating becomes totally different: with a language user interface (LUI) as opposed to graphical user interface (GUI)," says Mr Bastien of Lernout & Hauspie.